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# China Report

## ECONOMIC AFFAIRS

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23 August 1984

CHINA REPORT  
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

JINGJI GUANLI ON FACTORY RESPONSIBILITY SYSTEM

HK021351 Beijing JINGJI GUANLI in Chinese No 6, 2 Jun 84 pp 19-24

[Article by Ji Zhong [4764 0022]: "Sum Up Historical Experiences, Implement the System of Factory Superintendent's Responsibility"]

[Text] Reforms to the leadership system in state-run enterprises represent an important integral part of reforms to the state and party leadership systems and are also an important part of the reforms to the economic management system. As the reforms to the economic system gradually increase and intensify, more and more comrades are coming to understand that the present enterprise leadership system is unable to come up to the new trends in the reforms to the economic system and thus their call for a new system of factory superintendent responsibility in industrial and mining enterprises is growing louder and louder. Past experiences, when not forgotten, are a guide to the future. Accurate assessments of historical experiences, scientific investigations, and confirmations of the enterprise leadership systems during the several phases since the founding of new China still represents an important perceptual foundation for reforms to the enterprise leadership system. This article makes an assessment of the situation in Liaoning and discusses several views. I would be grateful for any valuable comments on any areas which are incorrect or inappropriate.

I

The second plenary session of the Seventh CPC Central Committee in 1949 proposed that the core of party work be shifted to the urban areas and at that time the Dongbei region victoriously achieved this shift. In May 1951 the decisions concerning party leadership of state-run enterprises of the Dongbei office of the CCCPC which were discussed and passed at the Dongbei urban work conference and ratified by the Central Committee of the Communist Party of China stipulated:

1. That the working class be relied upon, that democratic reforms be carried out, that a new management system be implemented, and that industry be restored and developed. The decisions stipulated that reliance on the working class was the fundamental ideology in our party's management of industry and handling of factories and that workers should take part in factory management committees. Reliance on the working class meant relying

on all workers, technological personnel, and staff members and ensuring that the working creation of the laborers was integrated with the science and technology of the scientific and technological personnel.

The decisions proposed that the construction of a new management system should involve the gradual drawing up of production plans and the implementation of a system of planned management and economic accounting. This was to be the basic method of enterprise management. On this basis advanced production methods were to be propagated, product quality improved, costs reduced, and financial management improved. On the basis of the principle of "receiving renumeration according to work," an eight level wage system was to be implemented and a piece rate wage system and bonus system gradually introduced.

2. In the decisions it was clearly stated what the basic tasks and essential nature of enterprises owned by the whole people were. It was stipulated that state-run factories and mining enterprises were economies of a socialist nature and their wealth and production results belonged to the state, in other words to the working class and the whole people. All the workers in factories and mines should struggle to develop production, in other words they should struggle to increase the economic strength of the state and its defence strength, for state industrialization, and to improve the material and cultural lives of the working class and all workers.

3. Starting out from the above-outlined tasks, the decisions stipulated the fundamental system for the party and administration in factories and mining enterprises:

Firstly, a system of superintendent responsibility was to be implemented in production and administration work in factories and mines. The superintendent was to be appointed by the state and receive necessary means of production and funds from the state and implement responsible management of production and administrative work. The Management Committee under the leadership of the superintendent represented a system at that time in which workers participated in production management. The factory superintendent had to open the Management Committee meetings and discuss major questions relating to economic planning, its implementation, the management system, production organization, personnel hiring and firing, wages, and welfare. He also reported regularly to the Worker Representative Council.

Secondly, party organizations in factories and mines bore complete responsibility for leading ideological and political work in factories and mines. They were responsible for surveilling and guaranteeing administrative work in factories and mines. The decisions stressed the implementation of the following few principles: Maintenance of the principle of integrating the factory superintendent responsibility system with management democratization and overcoming views which placed the factory superintendent responsibility system in opposition to management democratization. Maintenance of the principle of integrating political work with economic work and overcoming views which placed political work in opposition to economic work. Maintenance

of the principle of gradually improving the workers' lives on the basis of increasing production, and overcoming views which place development of production in opposition to improvements to workers' lives. Stressing the establishment and strengthening of comprehensive views concerning these questions and the establishment and strengthening of the concept that the workers' immediate interests should submit to long term interests, and that partial interests should submit to overall interests. Experience proves that in state run factories and mines brief meetings of the factory superintendent, the party secretary, the Worker's Representative Council chairman, and the league secretary represent a very good way of organizing close links between the various parts of the factories and mines and for ensuring mutual consultation and thus problems in everyday work which affect everyone involved can be solved.

The principles stipulated in these decisions are still correct in the light of today. The reason for this is that they are an assessment of the experiences of state-run industrial enterprises in the Dongbei region. In practical and overall terms they are good, but they do have their drawbacks. For example "the Management Committee" did not implement a system of democratic centralization but instead was "under the leadership of the factory superintendent." In actual fact the superintendent had the power of veto. Because a large number of old cadres who had entered the industrial front at that time were promoting the party's outstanding tradition, by relying wholeheartedly on the working class, they were carrying out democratic reforms and implementing a new system of management and administration, thereby filling in the shortcomings of the decisions, and playing an important role on completing, restoring, and developing the tasks of production.

For a period of time after 1953 quite a number of factories and mining enterprises were adopting and propagating to varying extents, the Soviet enterprises management methods of that time. In overall terms the superintendent responsibility system and the Soviet management experiences being implemented at that time basically reflected the objective demands of modernized large-scale production and the socialist production relations and thus great successes were achieved in straightening out enterprise production order, overcoming a lack of responsibility in production management, and establishing a responsibility system. It also guaranteed a restoration of the national economy and the victorious implementation of large-scale economic construction in the shape of the first 5-year plan, centered around the Anshan steel works.

The 1956 party congress decided that a factory superintendent responsibility system should be implemented in enterprises under the leadership of the party committee. In actual fact this was a centralization of enterprises' production and management decisions in the party committee and, in the process of implementation, the superintendent's powers of command in production and management work were actually directly weakened because most of the enterprises placed all their production and administration problems, no matter what their size or importance, on the agenda of the party committee. After the Eighth National Congress the movement to

criticize "the system of one leader" was launched and this ignored the true superiority of the factory superintendent system and did not get to grips with some of the shortcomings of the decisions and hence its implementation resulted in many bad aftereffects because disagreements and mutual lack of respect, as a result of insufficient party principles and training, often occurred in the work of the party secretaries and factory superintendents of that time and hence charges of "dictatorial leadership" and "leadership destructive to the party" were added to the criticism of "the system of one leader."

In 1958 the overall line for socialist construction passed at the second conference of the Eighth National Congress, reflected a fervent desire on the part of the mass of people to urgently change the backward state of China's economy and culture. A certain amount of success was achieved. Some new experiences were gained in production technology and in enterprise management, such as the implementation of "the two participations, the one reform, and the three integrations," and the development of technological reforms. However, because at that time objective economic laws were ignored and the "Great Leap Forward" was rashly implemented, "leftist" errors spread to a serious extent. The emergence in 1960 of the "Anshan steel works constitution" also inevitably brought with it some clear "leftist" tendencies. Under the influence of these "leftist" errors, while the "system of one leader" continued to be criticized, some leading cadres in factories and mines who in actual fact steadfastly sought truth from facts and upheld scientific management, were criticized as being "rightists" and "jia gui." With the call for "party secretaries to take command," all power was focused on the party committees, especially the committee secretaries and as a result serious tendencies developed in which the party replaced the government and the party and the government were not separate. At the same time the scientific management system established in the first 5-year plan was seen as an entirely irrational thing and was thus criticized, while the subjective activity of man was vastly exaggerated. The role of commodity production and the principle of distribution according to labor were ignored or even rejected and thus management chaos developed, systems ceased to be binding, and serious damage resulted.

In September 1961 the party central authorities promulgated the "Regulations for Work in State-Run Industrial Enterprises (draft copy)," otherwise known as the "Seventy Industrial Items." These regulations provided concrete stipulations for the nature, fundamental tasks, and principles of management of industrial enterprises. They clearly pointed out the error of the party committees undertaking all administrative affairs. Thus enterprise management improved and industrial production was quickly restored and went on to develop. Limited by the historical conditions of the time, these regulations still relied heavily on huge mass movements and were unable to reform the system of factory superintendent responsibility under the leadership of the party committee.

The "great cultural revolution" which began in 1966 resulted in the most serious damage and upheavals in the party, the state, and the people, since the founding of new China. Extensive chaos and recession occurred in enterprise management and this resulted in damage to industrial production which is hard to estimate. In addition dislocations in the national economy at that time meant that the country's economy was on the brink of collapse and it turned out to be one of the country's most painful lessons in its history of socialist construction, and the influence of poisonous "leftism" has even today not been completely eradicated.

## II

We can see from the above-outlined history of the establishment and development of the leadership system in China's industrial enterprises that China has rich experiences both positive and negative in work with enterprise leadership systems. Solid assessment of these experiences can help us find a correct path for further research and investigations into what reforms China's enterprise leadership system should undergo in the future.

Since the 3d plenary session of the 11th CPC Central Committee in particular, a series of reforms have been carried out to the economic system and the management system. The system of economic responsibility has been propagated and management autonomy in enterprises has been expanded, while overall reorganization of enterprises has also been carried out. At the same time a series of reforms has also been carried out to the leadership system within enterprises. In 1980 pilot reforms were carried out on the enterprise leadership systems of a small number of enterprises. In 1981 the central authorities once again stipulated the fundamental principles which should be respected in the leadership and management systems of China's industrial enterprises, namely "collective leadership of the party committee, workers' democratic management, and administrative command by the superintendent." On this basis "three regulations" were announced. It should be said that all this work had a very positive effect on the former period of restoration of order out of chaos and reform of the enterprise leadership system. However, I believe that these reforms were merely initial reforms, and to a very great extent they may be seen as governing chaos. For these reforms did not differ from the factory superintendent responsibility system under the leadership of the party committee which was stipulated in 1956. As the reforms to the economic system constantly increased and intensified, the shortcomings of this leadership system became increasingly prominent. These shortcomings are:

1. As the national economy has constantly developed and the economic system has been reformed, enormous changes have taken place in the structure of the country's economy, and many new situations have emerged. These new situations and new changes can mainly be seen in the constant appearance over the last few years of trans-regional, and trans-business economic integrated bodies as well as the gradual increase in jointly-financed Sino-overseas enterprises. It is very clear that it would be very hard to implement a system of factory superintendent responsibility under the leadership of the party committee in these two kinds of enterprises. It

can be foreseen that as reforms to the economic system increase and as the policy of opening up to the outside world continues to be implemented these economic integrated bodies will become increasingly common. If we do not change the enterprise system of leadership it will be very hard to meet the demands of these developmental trends.

2. Looking at the implementation of the enterprise leadership system today, one outstanding problem that still exists is the lack of unity between duties and rights. Questions of production and management policy which will determine the fate and destiny of enterprises are not the main responsibility of any one person within the enterprise. As far as management policy-making is concerned, the leadership levels of enterprises are clearly very weak and ineffective and this has now become a common problem in many work units. Just as Comrade Deng Xiaoping pointed out "today, a major problem in many enterprises and institutions and in organizations of all levels in the party and the state, is that there is no one to take responsibility. To say that the collective is responsible is the same as saying no one is responsible." Over recent years, because the implementation of the responsibility system has been stressed, this situation has improved somewhat. However, because this system of leadership itself has stressed that all leaders should mutually restrain each other, it has been very hard to build up any strength and it has thus been hard to implement a true system of responsibility. Among some of the present regulations there are various contradictions and thus no solution has been found to the question of who or what body has policy-making powers in enterprises and it appears as if the party committee, the Workers' Representative Council, and the factory superintendent all have such powers. In actual fact a great many things are determined by the party committee, letting the superintendent take the responsibility. This is very unfair. As a result the superintendent's powers, bestowed on him in the superintendent's regulations, have not been truly honored. If the present leadership system is not changed and if the problem of collective responsibility is not solved then it will be impossible to establish a highly authoritative, powerful and effective, centralized and unified command system, and it will be very hard to organize modernized large-scale production and ensure smooth development.

3. As the nature, position, and role of socialist enterprises gradually become clearer and as enterprise styles of management are reformed and after the implementation of sole responsibility for profits and losses, enterprises must have managers who fully represent the will of the state and the will of all those running the enterprise and the enterprise leadership system must correspond with and be suited to this.

As a result of research into the quality of enterprises we have come to understand that in order to ensure that enterprises have an intensional motivation for improving their quality, it is necessary to construct an enterprise management system with unified duties, powers, and interests, and which corresponds to the characteristic of China's industrial enterprises. This management system must be able to guarantee the unified leadership of the state and also exploit the initiative of enterprises.

To this end enterprises must carry out the following few changes:

1. They must change enterprises so that they no longer are appendages of the state administrative bodies and instead ensure that they become relatively independent within the national economic system so that they carry out independent production and management activities under the guidance of state planning and within the legally permitted spheres of the country.
2. They must change enterprises so that they are no longer seen merely as commodity producers and suppliers and so that they become socialist commodity producers. On the basis of the principles of socialist commodity production and commodity exchange, they must adopt diversified forms of management and implement individual responsibility for profits and losses to varying extents.
3. They must change enterprises so that they no longer "eat from the big rice bowl" and so that they have their own independent economic results. Two possibilities must be created for enterprises: Advanced enterprises should have the possibility of self-development and backward enterprises should have the possibility of being eliminated. These positions and roles of enterprises have determined that enterprises must have legal representation. Such a representative has two capacities. He must represent the state and preserve the socialist nature of the enterprises and he must also represent the workers and protect the correct interests of all the workers. These new changes not only expand the management autonomy of enterprises, what is more the competition stimulated means that when the enterprises are faced with the two possibilities of development or elimination, the difficulties involved in organizing an enterprise well are increased and the responsibilities of an enterprise become greater. Thus because the success of enterprise management is closely related to the personal interests of the workers, the working masses' enthusiasm to be masters of their own affairs and their demands for democratic management by necessity increase and thus even higher standards and greater efficiency are demanded in enterprise production management and policy-making. However, the present enterprise leadership system does not entirely conform to these demands and the workers' role as masters of their affairs and the democratic management of the enterprises do not achieve full embodiment. What is more, there is still no decision-making group which fully represents the interests of all the workers. The leadership system after the reforms must fully embody this fundamental socialist principle of the workers being masters of their affairs and, furthermore there must be absolute responsibility in production and administration work as well as centralized and unified command.
4. The party is the guiding core of the Chinese people and all undertakings. The enterprise party committee's ideological and political work, including the implementation of the party's and the state's lines, principles, and policies, is all achieved by organizing party members, including factory superintendents and leading cadres in all positions and ensuring that they studiously do their work according to the principles, lines, and policies of the party. In addition party members are relied upon as models and role leaders. Enterprise party committees are political organizations and their main tasks are to carry out party work well and to carry out good ideological and political work with the workers. But the implementation of the superintendent responsibility system under the leadership of the party committee means that enterprise party committees are forced to frequently

research production management and do administrative work and then make decisions. Not only does this mean that it is impossible to exploit the centralized and unified command role of the factory superintendent, in addition the party committee in reality becomes a mixed administrative and political work body. Indeed what often happens is that party work and ideological and political work is dropped. If reforms to this kind of leadership system are not carried out, and if we simply urge these bodies not to "undertake everything," we will find it very hard to achieve any results.

In conclusion then, as a result of the last few years of active research and pilot schemes, we have now amassed many experiences about reforming the enterprise leadership system. Not only do we have the conditions with which to quickly carry out reforms in these areas, implementation of such reforms is absolutely vital.

### III

What direction should be upheld in the reforms to the leadership system in enterprises and how should these reforms be implemented? After reforms to the enterprises:

1. Enterprises should have an authoritative body which represents the will of the state and also the interests of all the workers and which can quickly meet the demands of production, technology, and management development, and can meet changes in market information, and which can make timely and effective management strategies and policies.
2. Enterprises should have a centralized and unified production and management command system and commander, able to accurately carry out day to day management policies.
3. Enterprises should have a perfected organization or body which is able to represent the rights of the workers in exercising their role as masters of their affairs and their rights to participate in management and administration.
4. All the activities of the enterprises must be able to embody the firm ideological and political guidance of the party.

As a result of implementing reforms to the economic system, the enterprise leadership system which corresponds with the implementation of diversified forms of management and the fundamental principle of enterprises' individual responsibility for profits and losses and which corresponds with the demands of socialized large-scale production should be the system of factory superintendent responsibility.

The most ideal way for modernized industrial enterprises to ensure effectively concentrated collective wisdom and to ensure the implementation of management strategies and policies is to establish an enterprise management committee. The enterprise management committee is selected by the Workers' Representative Council as its standing body. The Management Committee is chaired by the factory superintendent (manager) and in addition to the superintendent and the party committee secretary, its members also should include leading cadres in such areas as production, management, administration, and technology as well as specialists and model worker representatives.

The three groups in this body can make up one third each. Conditions for membership should be that all members must be "sensible people" from the enterprise so as to create a collective policy-making body which centralizes the superiority and outstanding features of the enterprise and which is seen to have authority. The Management Committee should implement the system of democratic centralization and its most important tasks should be to discuss and research and make decisions on major policy problems related to enterprise management. The policies, decisions, and plans discussed by the factory management committee should be proposed at the factory affairs meeting attended by the superintendent or his deputy, the chief engineer, the chief accountant, and the chief economist. After ratification by the factory management committee, day-to-day policies and general enterprise production and management work should be examined and dealt with at regular factory affairs meetings, with the factory superintendent exercising full powers.

When implementing the system of factory superintendent responsibility, the selection of a superintendent should be done by the upper level competent authorities. The post may also be advertised, with the upper authorities being notified of the appointment. There can also be direct election through the Workers' Representative Council and in this case the upper authorities should be notified for approval and ratification. No matter whether the superintendent is appointed from above or employed through advertising the position, the choice must be discussed and passed at the Workers' Representative Council. The superintendent has decision-making powers for all day-to-day production and management work. The superintendent exercises centralized leadership of the enterprise's production and management activities as well as unified command, and overall responsibility. In concrete terms the superintendent's powers of authority include: 1. Proposing choices for the deputy superintendent and all chiefs of departments. After discussion in the Workers' Representative Council, the appointments are made by the upper level competent authorities. Those in charge of the enterprise's various administrative offices as well as the heads and deputy heads of the workshops are all appointed and dismissed by the superintendent. 2. The superintendent has the power to deal out rewards or punishments to workers according to the relevant state stipulations and the relevant decisions of the Workers' Representative Council. 3. The superintendent has the power of command over production and management. He exercises unified command of all the enterprise's production and management activities and he has the powers to control and handle the factory's manpower, material resources, and finances. 4. He has emergency powers. In extreme situations, when handling major questions of production and administration which exceed the limits of his authority, the superintendent has emergency powers which he may use and afterwards he must report back to the decision-making upper authorities or work unit.

After the enterprises have become relatively independent economic units, all those affairs which should be the responsibility of society can gradually become the responsibility of society. At that time one or two deputy superintendents can become the superintendent's helpers (acting partially in the capacity of superintendent and when the superintendent cannot carry out his duties, his deputies may take over). The superintendent

should mainly function within the areas of production, technology, management, and other such systems. Each system chief should be individually responsible for that system. They too are the superintendent's helpers and they are guided and led in their work by the superintendent and are answerable to him.

The Workers' Representative Council is the principle form in which all the enterprise workers exercise their rights as masters of their affairs and their rights to participate in enterprise production management. The implementation of the function of being master of one's own affairs as well as the implementation of democratic management of enterprises, represents one of the fundamental differences between socialist enterprises and capitalist enterprises. When enterprises are solely responsible for profits and losses, the workers become more closely linked with the means of production while the quality of enterprise management is even more directly related to the personal interests of the workers. As a result, the mass of workers not only have an ardent desire to exercise their powers of enterprise management, it also provides internal motivation for active and hard work to organize a good socialist enterprise. Thus one of the most important tasks in reforming the enterprise leadership system is the creation of conditions whereby the working masses may truly express their role as masters of their own affairs.

The enterprise party organizations mainly carry out ideological and political guidance in the enterprise and maintain surveillance and undertake investigations into implementation of the state's principles, policies, and planning. Ideological and political work is the lifeline of economic work and all other work and it represents an important guarantee in the enterprise's completion of production tasks and various other items of work. The enterprise's party organizations should concentrate most of their efforts on this focal point. In this way the enterprises may construct a high level of spiritual civilization at the same time as constructing a high level of material civilization.

Within the enterprises the relationship between the superintendent (manager) and the party committee is also the relationship between the enterprise's production and administration work and its ideological and political work. The superintendent is the state's legally appointed representative and he is also the representative of the workers' interests. When differences of opinion occur between the superintendent and the party committee and the Workers' Representative Council, and these differences cannot be resolved, the upper level competent authorities should adjudicate. If the superintendent feels that the decision of the management committee and the Workers' Representative Council hinder his own duties, the upper authorities will adjudicate and the superintendent must submit to the decision. If the superintendent feels he cannot carry out his functions normally, he may give up the job. If the factory management committee or the Workers' Representative Council feel that the superintendent has contravened certain policies or decisions in the performance of his duties which may gravely harm the interests of the enterprises or the nation, the decision may be annulled and the appointing authorities should be informed. The superintendent may be relieved of his duties, by means of the decision on relieving enterprise superintendents of their duties.

Under the influence of long-standing habits many comrades have some misconceptions. They have many doubts about the reforms to the enterprise leadership system. For example, some comrades fear that by not proposing "leadership by the party committee" we might be suggesting that we do not want party leadership. We say that the party's leadership of enterprises involves the organization of and surveillance of party members' implementation of the state lines, principles, policies, laws, stipulations, and plans. All of this embodies party leadership. In addition to this, demands relating to and stipulations concerning finances, taxation, banking, prices, labor wages, estimates, statistics, and so on are all handled according to the laws and stipulations of the State Council and the relevant departments and this also embodies party leadership. Naturally the enterprise party organization also has a responsibility to help and ensure that the above work is well done and to work hard to ensure that the various planning tasks handed down by the upper authorities are completed. This also embodies party leadership. However, methods should be changed and whereas formerly the party secretary was at the front of the stage in direct command, things should be changed so that the enterprise's party organizations and all the workers play a role. This too would increase and improve party leadership. Just as Comrade Deng Xiaoping pointed out "we must ensure that we can train, select, and elect outstanding and talented people. No matter whether they are party members or not, anyone who can do things must be allowed to play a role. If these guarantees can be provided then party leadership may be said to be effective and strong. Thus faith in the party will naturally increase."

Does implementation of the factory superintendent responsibility system mean that whatever one person says, goes? In order to reply to this question we must first of all clarify that the enterprise is an economic organization carrying out socialized and modernized large-scale production. Socialized industrial production demands the coordinated labor of many hundreds and thousands of people as well as coordination in all areas of production. When problems crop up in the production process they must be quickly dealt with and solved and thus this requires subordination to unified will and the implementation of highly centralized and unified command. If "what one person says, goes" refers to this kind of day-to-day concrete command work, then "what one person says, goes" is an objective requirement. If we are talking about decision making for major problems, then we reply that the superintendent must first and foremost submit to the double surveillance of the party committee and the Workers' Representative Council. Major enterprise decisions are made by the enterprise management committee or discussed and passed by the Workers' Representative Council and must represent the interests of the state and all the workers. Any major transgressions must be criticized by the Workers' Representative Council and handled accordingly. Thus we can see that in no way is there a situation in which what one person says, goes.

Do the collective decisions of the management committee on the enterprise's major production and management questions imply "specialists rule of the factory" and hence no need for democratic management? First of all we can see from the structure of the enterprise management committee that it

includes "sensible people" from all areas of the enterprise, including leading cadres, specialist technicians and scientists, and also workers' representatives rich in practical experience. It should be seen that 30 years of practice in socialist construction have produced a large number of specialists and talented personnel for our enterprises, and management committees have the concentrated essence of the enterprises. As a result they reflect in the most centralized way the opinions of all the areas of the enterprises and they thus represent a good form of the workers' democratic management of enterprises. Over the last 30 years economic results in our enterprises have been poor because of backward production, technology, and management. One of the main reasons for this is a lack of really "sensible people" and indeed some work units even rejected those people with truly outstanding talent for many years. Thus in order to improve the quality of enterprises and raise economic results we must rely on more "experts" as well as the mass of workers. Everyone must give expression to his or her talent and wisdom and together get our enterprises under control and in order.

In addition to having to solve the above-outlined problems relating to internal conditions, reforms to the present enterprise leadership system also require that we create the necessary external conditions for achieving these reforms. Thus, for example, reforms to the planning system, reforms to the cadre system, improvements to work style in leading bodies, and necessary economic legislation are all connected to the question of how to solve the difficult problems involved in enterprise leadership. All of these things help "untie" the factory superintendent and thus help bring life into the enterprise and allow it to truly become a base for the realization of the "four modernizations."

Reforms to the present enterprise leadership system represents an important piece of policy work. Not only does it require solutions to people's ideological doubts it also requires that we change long-standing and old customs and concepts. We must actively and stably carry out these reforms and implement guided and well-led pilot schemes, doing some practical work and some assessment work, retaining the good and getting rid of the dross and creating a socialist system of enterprise leadership with Chinese characteristics, thereby preparing for and laying down the foundations for future comprehensive reforms to the economic system.

CSO: 4006/681

PROVINCIAL AFFAIRS

HEBEI ISSUES PROVINCIAL GOVERNMENT WORK REPORT

HK310515 Shijiazhuang HEBEI RIBAO in Chinese 6 Jul 84 pp 1-3

[**"Government Work Report by Hebei Governor Zhang Shuguang at the Second Session of the Sixth Hebei Provincial People's Congress on 28 June, 1984"**--  
passages within slantlines published in boldface]

[Text] Fellow deputies,

Now, on behalf of the provincial people's government, I submit a government work for your approval.

I. The New Situation in Construction Over the Past Year

A total of 14 months have elapsed since the First Session of the Sixth Hebei Provincial People's Congress, which was held in April last year. Let us review the work of the government over the past year or more. Under the correct leadership of the CPC Central Committee, the State Council, and the provincial CPC Committee and in accordance with the line, principles, and policies adopted by the 3d Plenary Session of the 11th CPC Central Committee and the 12th CPC National Congress, we continued to implement the principle of readjusting, restructuring, consolidating, and improving, brilliantly shifted the focus of our work on to economic construction, concentrated our energy on bold exploration and the reforms, and paid due attention to the economic construction centering on the attainment of better economic results. Now, let us first briefly review the progress of our work. With the application of the system of contracted responsibilities linked to output on a household basis and the regional redistribution of crops, we freed agriculture from the practice of "eating from the same big pot" and egalitarianism. After that, in May last year, we held a forum in Langfang on the economic cooperation between Beijing, Tianjin, and Hebei. The forum was attended by 6 prefectures and 12 counties. At the forum, we studied the problems of relying on the large and medium-sized cities, of exploiting advantages and avoiding weaknesses, of supporting and serving one another, and of developing commodity production. In June, the provincial CPC Committee and the provincial government held a meeting of the heads of some counties and the secretaries of some county CPC committees to further study the problem of how to enable the guiding ideology and our work to be in keeping with the new situation in commodity production. We asked the prefectures and cities to analyze a key county's experience and to apply it first at some key points and then throughout the whole area. At the same time, we also devoted efforts to solving the problem of the finance of the industrial

enterprises and the taxes imposed on them. As early as April 1983, we unambiguously required that in industrial production, it was necessary to fulfill half of the yearly task within the first half of the year and to simultaneously increase the industrial output value, the profits, and the amounts of profits and taxes to be delivered to the state. In the same month, we paid special attention to 45 enterprises with enormous surpluses, each of them being able to annually deliver more than 10 million yuan of taxes and profits to the state, and to 75 enterprises with a deficit of 500,000 yuan each. In July, we invited the commissioners, and county heads to a conference on financial and taxation work in order to solve together the problems of finance and management. We suggested that leaders at all levels should direct the overall situation and pay close attention to the economy, economic results, finance, and taxation. In August, we held a conference on making up deficits, increasing surpluses, and consolidating enterprises and we adopted specific measures to make up the deficits and increase the surpluses. On behalf of the 75 enterprises with large deficits, the commissioners of various prefectural commissioner's offices, the mayors of various cities, and the responsible persons of the offices and bureaus concerned directly under the provincial government submitted "written pledges" to the provincial government and promised to make up deficits and increase surpluses within a definite time. In December, we held a conference on the work concerning small and medium-size enterprises and planning, designated the province's more than 10,000 collective enterprises to undertake independent accounting, replaced the state's responsibility for the enterprises' profits and losses with the system of letting the enterprises assume sole responsibility for their own profits and losses, arranged for the small state-owned industrial enterprises to be managed in the same way the collective enterprises were managed, and let the small enterprises with deficits and those on the verge of going into deficit practice the contract system. At the conference on planning, we emphatically study the problem of how to adapt planning to the new situation in the reforms and made it clear that large enterprises should be controlled and that a free hand should be given to the small enterprises. In February this year, at a meeting of the secretaries of prefectural, city, and county CPC committees, we related and implemented the spirit of Document No 1 issued by the CPC Central Committee in 1984 and proposed measures for perfecting the system of assigning contracted responsibilities linked to output on a household basis, enlivening circulation, and exploiting intellectual resources. This has been another important change since we emancipated our thinking, pushed forward the restructuring of the province's economy, and developed commodity production. In March this year, we held an economic work conference to emphatically discuss the problem of reforming the industrial enterprises. Since then, the provincial government and various offices and bureaus have issued a total of 79 documents on the reforms in various areas and formulated more than 610 measures for carrying out the reforms. The prefectures and cities have also come up with thousands of measures for reforms and adaptations. An irresistible tide of reforms has come into existence in the province.

The reform of the rural and urban economic management systems has given impetus to the tremendous development of the economy. In 1983, the gross annual output value of social production totaled 51.88 billion yuan (in terms of the current prices then; the same holds for figures below), an increase of 10.9 percent over the previous year if it is reckoned on a comparable basis. Of this, the

gross industrial and agricultural output value was 41.59 billion yuan, an increase of 12.6 percent over the previous year. The province's growth rate rose from the 17th highest in the previous year to 5th place. The gross agricultural output value and the output of 48 major products including grain, cotton, raw coal, small tractors, and bicycles met the sixth 5-year plan ahead of schedule. We can foresee that our province can certainly fulfill ahead of schedule the tasks set by the sixth 5-year plan. With the development of industrial and agricultural production, the revenue of the localities increased, the urban and rural markets were brisk, prices were basically stable, people's livelihood steadily improved, new progress was made in the building of a socialist spiritual civilization, and encouraging achievements were made on all fronts.

1. Bumper grain and cotton harvests were reaped and commodity production tremendously developed in the rural areas./

With the comprehensive and in-depth application of the system of contracted responsibilities linked to output on a household basis, the masses of peasants were unprecedentedly enthusiastic about building socialism. In 1983, the province's total grain output was as much as 38 billion jin, an increase of 4.4 percent over the previous year. The actual amount of cotton purchased so far is 1.512 billion jin, the second largest in the country or an increase of 100 percent over 1983. We hit an all-time high in the output of cotton and grain. This year, there will be another bumper wheat harvest and more land will be devoted to the growing of cotton. The masses of peasants are enthusiastically switching their occupations from the growing of crops to other trades.

particularly since the implementation of Document No 1 which was issued by the PC Central Committee this year, the number of specialized households, integrated bodies, specialized villages, specialized townships, and specialized markets has rapidly increased. In 1982, the number of specialized households in the province constituted only 10 percent of the total number of specialized households. In 1983, it rose to 16 percent. Their present number, that is, 1.12 million in all, constitutes 21 percent of the total number of peasant households. There are 230,000 integrated economic bodies of various kinds with total membership of about 700,000 households. There are 3,100 specialized villages, about 100 specialized townships, and 139 specialized markets of considerable sizes. Structural changes are taking place in the rural labor force. Some peasants have withdrawn from farming and moved to the market towns. More and more commodities are being produced and the commodity rate of agricultural and sideline products rose, remarkably, from 41.8 percent in 1982 to 50.7 in 1983. Compared with figures for the same period last year, the total value of the agricultural and sideline products purchased by the province from January to May this year rose by 69.8 percent and the total volume of rural and urban fair trade grew by 20.9 percent. Town and township enterprises rapidly developed. In 1983, their total income was 4.2 billion yuan, an increase of 18.5 percent over the previous year. Their total income from January to April this year was 2.73 billion yuan, in other words, 63.4 percent of their total income in last year. All this presents a picture of the broad prospects for rural economic prosperity in all areas.

/2. Industrial production steadily developed and economic results improved remarkably./

Over the past year or more, by giving more decisionmaking power to the enterprises and by paying close attention to making up deficits, increasing surpluses, and consolidating the enterprises, we have put an end to the enterprises' practice of "eating from the same big pot" of the state and the workers' practice of "eating from the same big pot" of the enterprises, effective aroused the enthusiasm of the enterprises and the workers, and initially enlivened the majority of enterprises. In 1983, the province's gross industrial output value increased by 9.9 percent over the previous year and the growth rate was then highest since we carried out readjustment. The profits of those enterprises included in the local budgets increased by 13.2 percent over the previous year; the amount of profits they delivered to the state increased by 6.4 percent over the previous year; and the turnover period for the fixed amounts of floating funds was 2 days shorter than that in the previous year. Compared with those in the previous year, the number of those industrial enterprises with deficits in the province decreased by 714 and the total amount of deficits was 122 million yuan, or 53.7 percent, less. From January to May this year, there was a sustained growth of industrial production and industrial output value, the profits, and the amount of profits and taxes delivered to the state simultaneously increased. Compared with those in the previous year the gross output value of those industrial enterprises listed in the budgets increased by 13.9, their profits increased by 30.1 percent, and the amount of profits and taxes delivered to the state increased by 22.6 percent. The quality of their products also improved. In 1983, 211 products were considered to be among the province's or the country's fine quality products. They added to our competitive power in the markets.

In regard to capital construction, as a result of the vigorous control of the scope of capital construction and the efforts devoted to rounding off the projects already under way, we have ensured the smooth construction of key projects. The construction of the Beijing-Qinhuangdao Railroad, the Douhe Power Station, the Qinhuangdao Port, the Eastern Hubei Cement Plant, the southern channel for draining the Luan He, and other key projects were completed either on schedule or ahead of schedule.

/3. Revenue and the amount of taxes collected increased and we put an end to the continued stagnation of past years./

By paying close attention to management and financial affairs, polishing the methods of creating and accumulating wealth and of utilizing funds, and devoting vigorous efforts to solving the problem of counties and enterprises with deficits, the governments at all levels have rather satisfactorily fulfilled the revenue and taxation plans. In 1983, the province's total revenue was as much as 3.639 billion yuan, an increase of 14.5 percent over the previous year, and the total amount of expenditure was 2.82 billion yuan, an increase of 9 percent over the previous year. After deducting the sum delivered to the central government, revenue and expenditure were in balance and there was a fair amount of surplus as a result of economizing. In addition, we have also overfulfilled the tasks of purchasing state treasury bonds and of the

acquisition of funds for capital construction in the areas of energy resources and communications. From January to May this year, revenue steadily increased. The revenue was more than 1.59 billion yuan, an increase of 18 percent over the same period in last year, and the expenditure was more than 1.15 billion yuan, an increase of 26 percent over the same period in last year.

/4. The circulation channels were cleared, the market was brisk, and the livelihood of the rural and urban populations gradually improved./

In regard to circulation, we have made less restrictive the policies governing the purchase and marketing of agricultural and sideline production and daily industrial goods, vigorously developed collective and individual commercial enterprises, merged grade 2 and grade 3 wholesale organs, and applied collective management among the small retail commercial enterprises and various services. The cooperatives have generally sorted out the share accounts, issued more shares, and carried out democratic elections. The counties have established joint cooperatives, gone in for joint agricultural-commercial operations, and expanded purchasing and marketing. We have vigorously developed collective and individual commercial enterprises and services. Fair trade has thrived. At present, the province has more than 2,000 market towns. An open, multi-channel circulation system with very few intermediate links is gradually taking shape. In 1983, the total value of the commodities purchased by the province for domestic trade reached 11.458 billion yuan, topping the previous year by 21 percent; and the total value of the retail sales of social commodities by the province was 13.4 billion yuan, an increase of 14 percent over the previous year. From January to May this year, the total value of the retail sales of social commodities by the province was more than 6.43 billion yuan, an increase of 21 percent over the same period last year. Of this, the value of the retail sales of social commodities by state-owned enterprises increased by 14 percent over the same period in last year, the total value of the retail sales of social commodities by collective enterprises increased by 31 percent, and the total value of the retail sales of social commodities by 75 percent. All this gives expression to the superiority of the simultaneous efforts made by the state, the collective, and the individual.

With the development of the national economy, the livelihood of the urban and rural populations has continued to improve. In 1983, the average annual per capita wage for workers and staff members was 796 yuan, an increase of 3 percent over the previous year, and the average annual per capita net income of the peasants was 298 yuan, an increase of 24.9 percent over the previous year. The total amount of saving deposits in the urban and rural areas was 5.748 billion yuan by the end of the year, an increase of 43 percent over the previous year.

/5. New Achievements made in science, education, public health, and culture./

In 1983, with the impetus given by the new technological revolution, the province achieved a total of 430 scientific research results which were up to the provincial or even higher standards. Of this, 32 important scientific research results were up to the standard of advanced scientific research results within the country. In regard to the study on the harnessing of Taihang Shan,

we have summed up rather scientific experience in making coordinated efforts to exploit the mountain. We have conducted 39 research projects and studied 44 practical problems with the help of the microprocessor. More than 540 people have been trained to use the microprocessor. By now, a total of 13 achievements in the application of the microprocessor have been appraised and applied.

Secondary and primary education developed rather rapidly. Structural reform has been carried out or is underway in 81 counties and cities and 51 counties and cities are about to carry it out. In 1983, the province invested 138 million yuan in primary and secondary education, an increase of 81.4 percent over the previous year. Of this, 75 million yuan, or 54 percent, was raised by collectives and individuals. A total of 3.08 million square meters of school buildings were either constructed, reconstructed, or renovated and 1.07 million sets of new chairs and desks were given to the schools. A total of 144 county normal schools and 171 agricultural or vocational secondary schools were built. The departments of the institutions of higher learning were reorganized. In addition, we enthusiastically built schools by various means and we developed adult education by establishing television universities, vocational universities, correspondence universities, evening universities, and university courses transmitted in the form of periodicals.

In the cities, we launched public health and sanitation campaigns principally for the purpose of purifying, greening, and beautifying the cities. Consequently, the cities look neat and tidy. About 70 percent of the people living in the rural areas are supplied with tap water. The incidence of some infectious diseases and endemic diseases has dropped drastically.

The number of babies born in 1983 was 800,000; 220,000 less than that in the previous year. As many as 78.4 percent of the families were one-child families, an increase of 8.7 percent over the previous year. The natural growth rate was controlled within the limit permitted by the plans.

Progress was also made in literature, the arts, the press, radio, television, publications, and physical culture.

#### /6. Outstanding achievements made in building a socialist spiritual civilization./

The drive to build civilized villages and civilized units has been launched throughout the province. Civilized villages and civilized units have been "jointly built by the army and the people," "jointly built by workers and peasants," "jointly built by the cadres and the masses," "jointly built by the police force and the people," and "jointly built by the factories and the neighborhoods." The drive is developing in the direction of building civilized townships, civilized counties, and civilized cities. By now, more than 38,600 villages, or 77 percent of the total number of villages in our province, have launched the drive to build civilized villages. More than 7,100 of them have been formally conferred with the title of "civilized villages." More than 20,000 units in the cities, or 74 percent of the total number of units in the cities, have launched the drive to build civilized units and more than 3,200 of them have been formally conferred the title of "civilized units." Consequently,

the masses of cadres and people more ardently love the party and socialism. In addition, the people and the households are united and they live in harmony. All this has given impetus to the development of production and construction and effected a turn for the better in social customs.

/7. Political power and the legal system was further consolidated, some achievements were made in the building of militias and the reserve force, and public order took a notable turn for the better./

In order to suit the needs of the four modernizations, in 1983, we smoothly carried out the structural reform of the leading government organs. Some aged cadres have withdrawn to the second and third lines and some young or middle-aged intellectuals have been promoted to leading posts. Consequently, the leading bodies are much more revolutionary, much younger in average, much better educated, and much more professionally competent. The building of the political power of the townships has been basically completed. The province has instituted 3,078 township people's governments and 67 nationality township people's governments. The constitute 93 percent of the total number of township people's governments that should be instituted.

Some achievements have been made by our province in building the militias and the reserve force and great efforts have been devoted to building bases for training militiamen. The people's armed forces, the militias, and the reserve force have played an active part in building the two civilizations and they are the mainstay in launching the four modernization drive and in safeguarding it.

In accordance with the "Resolution on Severely Punishing Those Criminals Who Gravely Jeopardize Public Order" adopted by the NPC Standing Committee, we have implemented the principle of severely punishing criminals without delay and according to the law by comprehensively cracking down on the criminal offenders. Compared with that before we began to crack down on crime, the monthly incidence of criminal cases dropped by more than 30 percent. In addition, we have begun to crack down on criminal activities in the economic sphere. In this way, we have effectively guarded the sanctity of the law, effected a notable turn for the better in social order, and created favorable conditions for the smooth development of economic construction.

/8. Progress has been made in the work concerning foreign affairs and foreign nationals./

In recent years, more than 30,000 foreign friends, businessmen, and scholars from about 100 countries or regions of the 5 continents have visited our province. They have come for the purpose of sight-seeing, holding business talks, teaching, and providing technical services. We have established friendly province-prefecture relations with Japan's Nagano Prefecture and friendly province-state relations with Iowa, an American state. In addition, Shijiazhuang, Qinhuangdao, and Chengde have established friendly ties with three Japanese cities, namely, Nagano, Toyama, and Kashiwa. From August to June this year, our province directly sent 574 people in 100 groups abroad to conduct surveys and 476 people in 141 groups were sent abroad by the

central departments. Not long ago, two groups of peasants from our province visited Japan at their own expense. They are the first ones in the country to do this. Such activities play a positive role in revitalizing our economy and in promoting scientific and cultural exchange.

Fellow deputies! The above achievements are a result of our close reliance on the leadership of the CPC Central Committee and the State Council and of our adherence to the principle of acting in unison with the central authorities. Over the past year or more, we have earnestly implemented the Document No 1 issued by the central authorities in 1983 and another issued by the central authorities in 1984 and this has brought about an immense material force among the masses. The central leading comrades have repeatedly come to Hebei to inspect and guide our work, given us direct and timely help, and shown their concern for us. All this ensures that we can smoothly carry forward the new situation in Hebei. In practical work, we have adhered to the ideological line of seeking truth from facts and proceeding in all cases from the actual circumstances, gone deep into the realities of life, conducted investigations, and, on the basis of the actual circumstances in Hebei, adopted some measures for reform and some adapted measures. In addition, we have sent many cadres abroad and to other provinces and the special zones to visit and to study. In this way, we have further emancipated our thinking, broadened our field of vision, given a tremendous push to the reform of the urban and rural economic systems, and enlivened the economy. In short, our achievements are a result of the unity of the people in our province, who, under the leadership of the CPC Central Committee, the State Council, and provincial CPC Committee, have fought side by side and creatively done their work. Here, on behalf of the provincial people's government, I renew to those comrades contributing to the socialist modernization on all fronts the assurances of my highest consideration!

Although confronted with an excellent situation, we should not fail to clearly see that in the light of the demands imposed on us by the central authorities, we still have a long way to go and that there are still many problems. In the opinion of the provincial government, the chief problem is that we are politically inactive and ideologically conservative. In addition, we have underestimated the tremendous momentum of the present reforms. We are slow to react to it and to keep pace with it. We have not freed ourselves from the force of habit. The practice of following the beaten track and the mentality of listening to nobody but the ancients remain quite serious problems. The pace of the reforms is still too slow. Our discussion of important issues is not thorough enough. We cannot always take the overall situation into consideration and we have yet to pay more attention to the strategic priorities in developing the economy of Hebei. The measures adopted by us for quadrupling the output value are not vigorous enough and the thinking of the leaders and their methods of work cannot keep pace with the development of the new situation. We monopolize too many things and we are not flexible in exercising control. Bureaucracy continues to exist and the leaders cannot keep abreast of the reforms. The root cause of all this is that our understanding of the pernicious influence of the 10 years of turmoil of the "Cultural Revolution" is not profound enough, that the "Cultural Revolution" has not been totally negated, that the vestiges of the "leftist" ideology, which are still fettering

our thinking and action, have not been completely eliminated, that our understanding of the extreme importance of the line, principles, and policies adopted since the 3d Plenary Session of the 11th CPC Central Committee and of the innovative spirit of the 12th CPC National Congress is not profound enough, and that we have not been conscientious enough in implementing all this. In the future, in our work, we should adopt effective measures to solve the above problems, strive to keep pace with the new situation, and push forward the reforms.

## II. Have the Courage To Reform, To Explore, and To Advance

The year 1984 is one in which we take bold steps in the reforms and continue to consolidate and develop the excellent situation. At present, the wind of reform is irresistible. Such a new situation has set stricter demands on the work of the government. In accordance with the spirit of the Second Session of the Sixth NPC, we should continue to implement the principle of paying attention to the building of a socialist spiritual civilization and a socialist material civilization at the same time, boldly carry out reforms, have the courage to blaze new trails, adhere to the principle of opening the country to the world and revitalizing the domestic economy, delegate more power to people, and more conscientiously fulfill various tasks. The central task continues to be that of pushing forward economic construction and enabling the people to become rich as soon as possible in accordance with the strategic priorities and the goal of quadrupling the gross annual industrial and agricultural output value put forward by the 12th CPC National Congress. This year, the province expects a total social output value of 54.388 billion yuan, an increase of 4.8 percent over last year. Of this, the gross agricultural output value is to grow by 4 percent and the gross industrial output value by 5 percent. The province expects the localities to have a total revenue of 3.739 billion yuan, an increase of 3.8 percent over the previous year. In addition, they are expected to produce at least 36.5 billion jin, [word indistinct] preferably 40 billion jin, of grain, 1.1 billion jin, preferably 1.5 billion jin, of cotton, and 1.05 billion jin of oil-bearing crops. In order to ensure the fulfillment and overfulfillment of the 1984 national economic and social development plan, it is necessary to conscientiously pay close attention to the following tasks:

- /1. Continue to thoroughly implement Document No 1 issued by the central authorities and vigorously develop commodity production in the rural areas./

The "CPC Central Committee's Instructions Concerning Rural Work in 1984 (that is, Document No 1 of 1984)" is a programmatic document for guiding rural work. It presents the overall policy according to which the party and the state develop commodity production, enliven the rural and urban economies, and enable the peasants to become rich as soon as possible. Governments at all levels should resolutely implement this document and make the reform of the rural economic system grow in depth. At present, our new task is, by unremittingly perfecting the system of contracted responsibilities on the household basis, with payment linked to output, to enthusiastically popularize various systems of contracting specialized jobs, to continue to give a free hand to the peasants, to vigorously develop commodity production, to turn the self-supporting or semi-self-supporting agriculture into large scale commodity-producing agriculture, and to modernize traditional agriculture. It is necessary to carry

out synchronous, comprehensive reforms, properly lay down the plan for the co-ordinated economic, technological, and social development of the seven counties in which a pilot project is being launched and to continue to practice and gradually perfect the system of contracted responsibilities for financial revenue and grain output and the measures for purchasing the major and sideline products in order to enable the production of grain and industrial crops, diversification, agriculture, industry, and commerce to develop at the same pace and to bring about a simultaneous increase in state revenue, collective accumulation, and personal income. All measures and regulations must be formulated in the spirit of Central Document No 1. Anything that violates it or runs counter to it should be conscientiously corrected.

It is necessary to continue to stabilize and perfect various systems of contracted responsibilities on the household basis, with payment linked to output, to earnestly assign contracted responsibilities for land, hills, forests, pastures, beaches, and rivers and lakes, to enthusiastically popularize various systems of contracting specialized jobs, and to encourage the peasants to assume contracted responsibilities for the exploitation of barren hills and waste beaches in order to improve the productive force.

It is necessary to enthusiastically help the specialized households and integrated bodies develop their business, to speedily provide various services before, during, and after production, and to offer them vigorous support and help in terms of technical advice, funds for production, the purchasing and marketing of their products, communications and transportation facilities, and market information in order to enable more peasants to leave their land and proceed in the direction of specialization and socialization. Following the application of the system of contracted responsibilities for agricultural production, this is another major policy to be implemented with success.

It is necessary to continue to restructure agriculture and readjust its distribution and to guide the peasants to enthusiastically take up the growing of various crops, the keeping of animals and livestock, processing, storing and transporting services, mining, the production of building materials, building construction, commerce, and various services as their jobs in order to promote the overall development of agriculture, forestry, animal husbandry, sideline production, and fishery and to give impetus to the joint agricultural-industrial-commercial operations. It is necessary to vigorously develop town and township industry, to comprehensively develop the rough and sophisticated processing of agricultural and sideline products, to take the road of raising value by processing, and, in particular, to make a success of the processing of food, the storage and processing of fruits, and the processing of fodder, cotton, garment, and building materials. If the peasants want to become rich through labor, they must take this road.

With the development of commodity production in the rural areas, the task of speeding up the building of small cities and towns has become one of our important tasks. Leaders at all levels should, with a sense of urgency, properly make overall plans for building small cities and towns, encourage the peasants to do business in the cities and towns, comprehensively invite the peasants to invest money in building all kinds of enterprises and in cultural,

educational, and public health undertakings, and encourage the formation of all forms of multi-level and multi-area integrated economic bodies which combine several industries. The urban units should offer help, in terms of place, funds, technical know-how, and the issuance of licenses, to the peasants doing business in towns and gradually turn the small cities and towns into political, economic, and cultural centers.

Our province has a vast area and the circumstances in various localities vary. Thus, in developing commodity production in the rural areas, it is necessary to suit measures to local conditions and to offer advice accordingly. We intend to divide the province, on the basis of the different natural conditions in different parts of the province and their special economic characteristics, into eight regions of eight types, namely, the Bashang Plateau, the Yan Shan Area, the Taihang Shan Area, the Eastern Hebei Plain, the plain along the Beijing-Guangzhou Railroad, the drainage area around Heilong Port, the coastal plain, and the environs of Beijing and Tianjin. They are, on the basis of their special characteristics and superior conditions, to define their main direction of operation and effect breakthroughs in specific areas. In this way, the province can gradually build several specialized commodity production centers with their own distinctive characteristics and bases for the production of grain, cotton, oil, meat, eggs, milk, fish, forestry products, fruits, and famous brands of native products, and quickly turn the rich resources into superior conditions for commercial and economic activities.

## /2. Speed up the reform of the urban economic system and fully arouse the enthusiasm of the enterprises and the workers./

According to the instructions issued by the CPC Central Committee and the State Council, at present, it is necessary to emphatically pay close attention to the reform of the urban economic system. The problem underlying the urban reforms is one of eliminating "leftist" influence, practicing the contract system, delegating power, enlivening the enterprises and circulation, thoroughly overcoming egalitarianism in distribution, putting an end to the practice of not differentiating whether or not the enterprises are properly managed and whether or not the workers work hard, preventing the enterprises from "eating from the same big pot" of the state and the workers from "eating from the same big pot" of the enterprises, correctly handling the relations among the state, the enterprises, and the individuals, optimally arousing the enthusiasm of the enterprises and the laborers, and further emancipating the productive force. This should be considered the starting point as well as the end-result of all our reforms. The provincial government, the responsible departments directly under the provincial government, the prefectures, the cities, and the counties formulated some reform plans and some adaptive measures in the previous period. It is necessary to pay close attention to implementing them, to continue to revise, perfect, and develop them, to earnestly enliven the urban enterprises, to give a free hand to them, and to improve economic results. The State Council stipulates that starting from the fourth quarter of this year, the second step in substituting taxes for the delivery of profits will be taken and the delivery of both taxes and profits will be replaced by the system of the total substitution of taxes for the delivery of profits.

The collective enterprises should be run and further enlivened by means of collective ownership. It is necessary to enthusiastically reform the outmoded practices and conventions which confine the development of the collective enterprises and to make less restrictive the policies governing financial matters, credit, and taxation. The localities with surpluses can invest money by buying shares in order to help the collective enterprises develop. No locality or department is to arbitrarily change the collective character of the collective enterprises or to indiscriminately transfer or violate the property of the collective enterprises. The collective enterprises are empowered to refuse to comply with the arbitrary exaction of charges by any unit in order to ensure that the collective enterprises' property rights and their rights to make their own business decisions and to manage their own personnel are not violated. The collective enterprises should further emancipate thinking, eliminate obstructions, and boldly carry out reforms in order to pave a new path for the development of the collective enterprises.

It is necessary to continue to devote efforts to making up the deficits of the enterprises and to increasing their surpluses. It is necessary to apply the system of economic responsibilities at all levels within those enterprises which each have a deficit of 300,000 yuan or more and to sign contracts with them in order to force them to make up their deficits within a definite time. As for those small- and medium-sized enterprises, the collectives and individuals can assume contracted responsibilities for them by submitting tenders and they should strive to make a profit within the same year. This year, we are to devote vigorous efforts to making up deficits which are a result of poor management. As for those enterprises not capable of making up deficits, we should accordingly consolidate them, transform them, close them down, suspend their operation, merge them, or switch them to the manufacture of other products.

It is necessary to pay close attention to increasing the surpluses of those enterprises which are each capable of delivering 10 million or more of taxes and profits to the state each year. These enterprises should increase their profits by stepping up the production of marketable products, cutting the consumption of energy resources and raw materials, raising the rates of up-to-standard products and high-grade products, speeding up the turnover of funds, and cutting expenses. As for those enterprises with profits which exceed the plans, it is necessary to encourage them in order to fully arouse the enthusiasm of the enterprises and the workers.

It is necessary to continue to pay close attention to the overall consolidation of the enterprises, to improve their quality, and to do a good job of changing over from the production of some products to the production of others. The key to enterprise consolidation lies in the establishment of good leading bodies. All those leading bodies which have not been consolidated should be consolidated without delay. It is necessary to pay special attention to letting those "competent people" with a sound knowledge of management and the courage to carry out reforms be the persons holding primary and secondary responsibility and to gradually practice the system of letting the factory directors (or managers) be in charge of the enterprises. It is necessary to run the enterprises by economic means, to devote greater efforts to the establishment of information organs, and to enthusiastically popularize the experience in modern business management.

The urban reforms are a complicated task and there is no set pattern to follow. Thus, we should boldly make innovations and boldly explore and carry out reforms by various means. We should not insist on instant perfection. Rather, we should let "a hundred flowers blossom together in the garden of a hundred flowers." Only by comparing different things can we find out their differences and only by finding out differences can we summarize experience and improve and perfect them in a step-by-step manner. In this way, we can eventually "reach the same goal by different routes" and build socialism with distinctive Chinese characteristics.

### /3. Speed up the reform of the circulation system and further enliven the urban and rural economies./

With the in-depth development of the urban and rural economic reforms, more and more varieties of commodities are being circulated. However, the circulation system has not been adapted to the situation. This is a very prominent contradiction. Thus, we are confronted with the pressing task of reforming the circulation system, clearing the circulation channels, and properly solving the "difficulties in buying and selling goods."

In reforming the circulation system, it is necessary to adhere to the principle of promoting production and making things convenient for people and the principle of letting the state, the collectives, and the individuals make joint efforts, and to find local markets and markets abroad for the commodities. At present, it is necessary to pay attention to combining the local markets with the markets abroad, with stress on the former, the markets in the north with those in the south, with stress also on the former, and the urban market with the rural market, with stress on the latter. The original circulation system with the purchase and supply of commodities based on the division of administrative regions and the division of different levels of administrative departments should be transformed into an open, multi-channel circulation system with few intermediate links. In this way, we can build an unobstructed criss-cross circulation network which links up the rural and urban areas and all parts of the province.

According to the experience of various localities, the best way to enliven circulation is to set up trade companies and trade centers for industrial, agricultural, and sideline products. State-owned commercial enterprises, collective commercial enterprises, and individual commercial enterprises can go to the trade companies or trade centers to buy goods wholesale or retail. They can sell goods on commission, act as agents, or store and transport goods for the trade companies or trade centers. In short, they can go in for diversification with stress on one specialized job. Both the kinds of business and the ways of doing business can vary.

It is necessary to quicken the pace of the reform of the state-owned commercial enterprises, to pay close attention to abolishing or merging the overlapping wholesale organs, to turn small commercial enterprises and various services into collectively run businesses as soon as possible, and to establish and perfect various systems of responsibilities for the management of large- and medium-size commercial enterprises in order to speedily raise the competitive power and economic results of the state-owned commercial enterprises to a new level..

The stress of the structural reform of the supply and marketing cooperatives should be laid on turning them from ones "run by the government" into ones "run by the people." It is necessary to restore their "three characters (that is, mass character, democratic character, and flexible character)," to encourage the peasants to buy shares, and to increase the number of shares held by the peasants in order to make them shareholders in reality as well as in name. Within the supply and marketing cooperatives, it is necessary to hold democratic elections in order to elect those who really know how to manage the cooperatives and who are good at doing business as leaders. In this way, the cooperatives can really become the peasants' own cooperative commercial enterprises as well as the centers providing various services in the course of the development of the commodity economy in the rural areas. Now that fresh cotton is about to come in, it is time we made preparations. We should, by various means and through various channels, improve the purchasing, processing, storing, transportation, and marketing of cotton and thoroughly solve the masses' "difficulties in selling cotton."

The grain departments should further emancipate thinking and blaze new trails. Edible oil and grain should be [words indistinct]. It is necessary to popularize throughout the province the advanced experience of Nanpi County in doing the work related to grain, to find more sources of business, to expand their business, to make a success of the processing of foodstuffs and fodder, and to take the road of purchasing-processing-marketing. It is necessary to turn the management of the grain departments from administrative management to commercial management, to make a success of the buying and selling of grain and edible oil, and to strive to turn deficits into surpluses as soon as possible.

It is necessary, on the basis of the principle of unified leadership and centralized management by specialized departments, to speed up the structural reform of foreign trade and to take the road of combining industry and agriculture with trade in order to enliven business. It is necessary to arouse people's enthusiasm about foreign trade, to expand import and to create more foreign exchange income by various means, and to strengthen the administration of the organs. This year, the deficit is to be reduced by a vast amount.

In developing the commodity economy, it is necessary to give full play to the role of the industrial and commercial administrative departments, to make the policies less restrictive, to give the green light to people, to speed up the building of the rural market, to supervise the enforcement of the terms of the economic contracts, and to maintain good economic order so as to facilitate the development of production and business.

All the departments in charge of commodity production, business management, and administration should strengthen the construction of a data feedback system and recruit competent people and assemble advanced facilities in a planned manner. In this way, they can gradually build a market information network, have quick access to information and timely feedback, promote production, and direct business.

/4. Strengthen financial management and strive for a turn for the better in the financial and economic situations./

Financial work should be centered on the revitalization of the economy, the promotion of production, the attainment of better economic results, an increase in revenue, and a decrease in expenditure. It is necessary to arouse people's enthusiasm in order to fulfill and overfulfill the task of financial revenue assigned by the central authorities.

It is necessary to reorient investment in a planned manner. On one hand, it is necessary to maintain a sustained growth of the national economy in the immediate future. On the other hand, it is also necessary to reserve strength in order to lay a solid foundation for the revitalization of the economy in the future. It is necessary to pool financial and material resources in order to facilitate the building of key construction projects and to increase the investment in the exploitation of intellectual and natural resources, communications, and the technical transformation of key enterprises. It is necessary to devote greater efforts to analyzing and predicting the expenditure. As for the money saved in a financial year, the department in charge should allot it for projects which need money badly. Otherwise, the financial departments can claim it back.

Leaders of all levels of governments should acquire a knowledge of administration and financial management and study the ways of creating and accumulating wealth and of spending money. It is first necessary to pay close attention to creating wealth, to support and develop production, and to find sources of income. This is the basis. In accumulating wealth, it is necessary to collect all the money that should be collected. In addition, it is necessary to properly spend money and to ensure that the money that should be spent is properly spent and that not even 1 fen of the money that should not be spent is spent. This year, it is necessary to resolutely decrease the number of counties with deficits to zero, to decrease the number of counties given subsidies by one-third, and to strive to keep revenue and expenditure in balance.

It is necessary to further improve and readjust the ways the finances are managed and to appropriately add to the financial power of the prefectures, cities, and counties. As for those economically backward counties, it is necessary to make the policies still less restrictive in order to help them develop production, increase income, and put an end to their backwardness as soon as possible.

It is necessary to devote greater efforts to collecting taxes and to pay close attention to taxation work without relaxing our efforts. At present, the main problem in taxation work is that some leading comrades pay no attention to collecting taxes, that some cadres responsible for taxation work do not know how to collect taxes, that some people are against the imposition and collection of taxes, and that not all the taxes that should be collected have been collected. If we do not pay close attention to collecting taxes, that is our gravest mistake. Thus, governments at all levels should strengthen their leadership over taxation work, improve the quality of the contingents of tax collectors, devote greater efforts to publicizing the taxation law, overcome onesided "benevolence," resolutely pay taxes according to the law, and calculate and collect taxes according to the rates. In making allowances for exploitative production, the newly established town and township enterprises, the technical transformation of key enterprises, the technical services, and the trial production of new products, it is necessary to base ourselves on the actual circumstances and to exercise strict control.

It is necessary to improve the banks' work in the area of extending credit. It is necessary to extend short-term loans and small amounts of loans to people, to extend more loans to people, and to efficiently collect debts in order to speed up the turnover of funds. It is necessary to pay close attention to backing the commodity production in poverty-stricken areas and to finding more sources of funds. In economically rather developed areas, we can advocate the establishment of fund-raising corporations on a trial basis in order to raise funds from among the peasants for the purpose of developing commodity production.

It is necessary to rigorously enforce financial and economic discipline and to devote greater efforts to supervising auditing. As for those bureaucrats and those people who are derelict in their duties, who make a mess of their business, who waste a lot of money, who bring about heavy losses, or who are irresponsible concerning the people's property, it is necessary to strictly handle them. If their mistakes are very serious, it is necessary to punish them according to the law.

#### /5. Make the construction and development of Qinhuangdao a success and give full play to the role of the key cities./

Qinhuangdao is one of the 14 cities which the central authorities have decided to open to the world. This is an important issue which helps make the economy of the province prosperous. At present, we are devoting vigorous efforts to drawing up plans for building the economic development zone. In addition, we are also enthusiastically introducing foreign capital, importing advanced technologies, and speeding up the technical transformation of old plants. We ask everybody to be concerned about and to help the construction of Qinhuangdao. Overseas Chinese from our province or other provinces and foreign businessmen are welcome to invest money in Qinhuangdao in order to quicken the pace of its construction and development. Through the construction and development of Qinhuangdao, we can accumulate experience and give impetus to and speed up the modernization of other cities in our province.

At the same time, the provincial government has decided to launch a pilot project on the reform of the urban economic system in Shijiazhuang and Handan. It asks all the provincial departments to enthusiastically support the reforms of the cities in which the pilot project is to be launched and to consider these two cities an "experimental field" for the reform of the economic system.

Other cities in the province should, on the basis of their actual conditions, adopt the policy of opening themselves to the world and revitalizing their economies in order to speed up the reform of the economic system. All departments under the provincial government should lift all the irrational restrictions imposed on the administration of the cities in order to give full play to their role as key cities.

The institution of city administration over counties is an excellent way to combine the urban areas with the rural areas and industry with agriculture, to help them benefit one another, and to revitalize the economy. Starting from last year, we have experimented with an administrative system with the counties

ing put under the administration of cities. We have, with the key cities as backing force and by economic means, helped those counties under the administration of cities develop their economies and improve their productive force. All cities, particularly Tangshan and Qinhuangdao, should earnestly summarize experience in this regard.

. Continue to popularize the experience of "Handan City No 2 Building Construction Company" and pay close attention to the reform of the management system in building construction./

the course of its reforms, the Handan City No 2 building Construction Company has, in regard to distribution, created good experiences in putting an end to the practice of "eating from the same big pot" and in overcoming egalitarianism. We should popularize their experiences without delay. State-run construction teams and collective construction teams, as well as individual construction teams should invite or submit tenders for construction buildings. They should, in particular, help the peasants engage in building construction in the cities, simplify the formalities to be gone through before they are allowed to assume contracted responsibilities for constructing buildings in the cities, and devote greater efforts to providing professional and technical service and services. At present, many building construction units assume contracted responsibilities for constructing buildings but do not in fact do the work. Sometimes, they simply delay constructing them. Consequently, there are many "delayed projects" and "half-completed projects." It is necessary to put an end to such a state of things by popularizing the experiences of "Handan City No 2 Building Construction Company." The units responsible for designing projects should also practice the system of contracted economic responsibilities and put an end to the practice of "eating from the same big pot." Units and individuals capable of surveying and designing projects can undertake to design capital construction projects of a limited size.

It is necessary to reform the system governing the construction and administration of residential houses. In building residential houses in the cities, it is necessary to replace the practice of building houses with scattered capital with the practice of the centralized construction of houses with funds pooled from various sources and systematic and comprehensive development, to build as few new estates as possible, to exhaustively utilize the old estates, and to speed up the reconstruction of the old parts of the cities. At the same time, we can encourage individuals to build houses, build houses with joint state-private efforts, and encourage people to build houses with government aid. As regards the distribution of residential houses, it is necessary to put an end to the "supply system" and to sell houses on a trial basis. We can subsidize those people who buy houses, extend low-interest loans to them, or let them pay for the houses by installments.

It is necessary to speed up the construction of post-earthquake Tangshan. It is necessary to pay special attention to building residential houses in the cities. We can offer people help in terms of funds, raw and processed materials, and manpower and facilities for building houses. The state, the collectives, and individuals can assume contracted responsibilities for building residential houses. We can also invite people from the prefectures, cities, and counties of the province and those from other provinces or cities to invest money in building houses. These houses can be sold or let to people.

/7. Vigorously develop the educational and cultural undertakings and speed up the training of gifted people./

A strategic measure for revitalizing the economy is to develop education and devote greater efforts to the exploitation of intellectual resources. Governments at all levels should attach great importance to the educational reforms. It is necessary to build and run schools by various means. The state, the collectives, and individuals can build and run schools. It is necessary to speed up the reform of primary and secondary education in the rural areas, to enthusiastically establish agricultural secondary schools and all kinds of urban or rural vocational schools or technical schools, to earnestly make the normal schools a success, to strive to improve the quality of the teachers, and to continue to properly readjust and reform the special secondary schools. Having fulfilled the recruitment plans assigned by the state, the agricultural secondary schools can run special, paid courses on a trial basis. The institutions of higher learning should make the reform of the educational system a success and greater decisionmaking power should be delegated to them. They should fix the size of the staff and the number of staff members, practice the system of personal responsibility for each post, reform the curricula, provide new courses of studies, and encourage the teachers to work in areas and departments with not enough teachers, to do some teaching in other institutions or other parts of the province in addition to their main occupation, to undertake scientific research projects concerning economic construction, and to provide advisory services in the areas of teaching, scientific research, production, and technology. At the same time, they should properly recruit students from specific areas and from professions related to the course offered, run paid day courses, and train people for other departments. It is necessary to continue to make adult education a success by means of television universities, university courses transmitted in the form of periodicals, and short-term courses and to enthusiastically encourage people to train themselves with their own efforts.

It is necessary to strengthen the construction of the cultural undertakings including literature, the arts, the press, publications, radio, television, newspapers, and libraries in order to enrich the masses' spiritual life and to gratify their spiritual needs.

It is necessary to vigorously develop the public health service, to further acquire the idea of wholeheartedly serving the people, to earnestly improve our attitude in serving people, to strive to improve the quality of medical service, to vigorously study the ways to carry out reforms on the public health front, to launch the patriotic public health drive in a comprehensive, in-depth manner, to implement the principle of putting prevention first in medical work, to strengthen the prevention and cure of endemic diseases, common diseases, diseases that frequently occur, and vocational diseases, to persistently pay close attention to family planning work, to control the natural growth rate of the population of our province within the limit permitted by the plans, to strengthen mother and child care, to make preschool education a success, to practice eugenics, to enthusiastically organize mass sports activities, and to strengthen the training of people in the major sports and games to enable them to achieve better results than those which have been achieved.

/8. Vigorously develop scientific research and enthusiastically popularize technology./

In order to push forward economic construction, it is necessary to strengthen scientific and technological work. Governments at all levels should adopt effective measures to strive to put an end to our scientific and technological backwardness. It is necessary to formulate without delay plans for the long-term scientific development of the province, to improve, in a planned and step-by-step manner, the ways the scientific research units conduct scientific research, to concentrate efforts on cooperation with other parts of the country in tackling major problems, to step up research and experiments in new technologies such as the microprocessor, to apply as soon as possible more scientific research results in production, and to speedily popularize them among the masses in order to turn science and technology into a productive force.

It is necessary to vigorously import technology and to recruit competent people. It is necessary to vigorously import advanced technologies and facilities and to recruit competent people from foreign countries. It is especially necessary to carry out economic and technological cooperation with Beijing and Tianjin and to invite gifted people from these two major municipalities to our province to disseminate scientific and technological knowledge.

It is necessary to reform the scientific and technological management system, to continue to consolidate the scientific research organs, to reduce the number of non-scientific and non-technical workers, and to establish a rational scientific research system. The scientific research departments should gear their work to the needs of society and economic construction, practice the system of undertaking paid research projects which have been designed by foreign countries through signing contracts with them, assume contracted responsibilities for tackling scientific and technological problems for other parts of the country, and gradually turn themselves from units financed by the state into financially independent ones. The departments responsible for popularizing scientific research results should comprehensively provide various paid services. They can provide technical guidance, assume contracted responsibilities for technical work, train technical workers for others, and offer technical advice. It is necessary to set up systems governing the popularization of technologies and the training of technical workers. Those localities with the proper conditions can establish technical service companies and centers for training and recruiting technical workers in order to serve economic construction well.

It is necessary to earnestly implement the policy toward intellectuals and to be concerned about the work and life of the intellectuals, particularly the middle-aged intellectuals. It is necessary to help the scientific and technical workers receive in-service training, to encourage invention, creation, and the rational mobility of scientific and technical personnel, to put an end to the ownership of competent people by the departments, to resolutely overcome the practice of overstocking, wasting, and suppressing gifted people and preventing them from going to other departments, to promote those scientific and technical workers and the graduates of the universities, colleges, and special secondary schools to work in the grassroots and in where they are most needed, and to give preferential treatment to those who go to work in Bashang area, the remote mountain areas, and the town and township enterprises.

/9. Perfect the socialist legal system and strengthen the building of political power./

It is necessary to strengthen the education in socialist democracy and legal system in order to enable the people to have a better idea of the legal system. Our present political and legal work should be geared to the needs of the four modernizations and the reform of the economic system and it is to provide a legal guarantee for the proper economic activities in the urban and rural areas. It is necessary to resolutely implement the principle of severely punishing the criminals without delay, to continue to concentrate efforts on the crackdown on the criminal activities in the economic sphere, to earnestly and properly help, educate, and transform the juvenile delinquents and those young people who have committed minor offenses, and to implement the specific measures for making overall improvements in order to effect another turn for the better in social order and social customs.

In building political power, it is necessary to pay close attention to the establishment of township governments and village residents' committees, to study and formulate without delay the "Regulations Governing the Work of Township Governments" and the "Outline Regulations for the Village Residents' Committees," and to give full play to the functional role of the political power at grassroots level. It is necessary to properly help the poor, to properly give special care to disabled servicemen and to families of revolutionary martyrs and servicemen, to do a good job of relief work, to speed up the building of the militias and the reserve force, to do a good job of supporting the army and giving preferential treatment to families of revolutionary army men and martyrs, to properly do the work concerning the minority nationalities, religious affairs, and Overseas Chinese affairs, to strengthen the unity between the army and the people, between the army and the government, between the cadres and the masses, and among the nationalities, and to consolidate the excellent situation of stability and unity in the province.

/10. Continue to create a new situation in the building of a spiritual civilization./

To pay close attention to the building of the two civilizations at the same time is a long-term strategic principle adopted by the CPC Central Committee. This symbolizes the building of socialism with distinctive Chinese characteristics. Many things are involved in the building of a socialist spiritual civilization, which is extremely rich in content. It is necessary, with the idea of system structures as our guide, to comprehensively build socialism, to give full play to the functional role of society as a whole, to coordinate the efforts made by people from various quarters, and to properly combine various ways of building socialism in order to get twice the result with half the effort.

It is necessary to earnestly summarize the experience of the army and the people in jointly building a spiritual civilization and to continue to properly pay close attention to all ways of "jointly building a spiritual civilization" such as the joint efforts made by the people and the army to build a spiritual civilization, the joint efforts made by the peasants and the workers, the joint effort made by the factories and the streets, and the joint efforts made by the police force and the people. It is necessary to encourage the villages, the townships, the units, and the households to "make joint efforts to build a spiritual

civilization" in order to make the building of civilized villages, civilized townships, civilized counties, and civilized cities grow in depth and breadth.

It is necessary to launch the "five stresses, four beauties, and three loves" drive in an in-depth manner, to give the masses of cadres and people a comprehensive education in communism, patriotism, the revolutionary tradition, civility, and courtesy, to unremittingly heighten their communist and patriotic awareness, and to organize the masses of cadres and people, particularly the young people, to emulate the heroic group at Chenlu Hu and the advanced, exemplary people on all fronts. In this way, they can conscientiously resist spiritual pollution and they will strive to become a new generation of cultivated, polite, and discipline-abiding people with moral integrity.

Fellow deputies! The reform of the economic system will certainly be reflected in the superstructure and it will give rise to the reform of the administrative organs and a change in the style of leadership. The present administrative system is not adapted to the new situation in the reforms. There is an absence of unity among departments and regions at different levels and they restrict their activities to a designated area or sphere. In addition, they monopolize too many things and exercise rigid control over them. Such a state of things has gravely affected the progress of the reform of the economic system. In order to push forward the reform of the economic system, it is necessary to vigorously study and reform the production relations which are not suited to the development of productive forces, the superstructure which is not in line with the economic basis, and all backward administrative methods, backward ways of thinking, and backward styles of leadership. In order to reform, it is necessary to have a sense of urgency of the times. "Time is money and efficiency is vitality." This should be taken as an extremely important guiding idea for all levels of government. It is necessary to enthusiastically cherish, help, and support the reformers and to create with them a new situation in the reforms. In reforming the administrative system, the central task is to streamline the governments and to delegate more power to units at lower levels. As far as the provincial government is concerned, it is necessary to delegate greater power to the offices and bureaus and to reduce the number of intermediate links. The offices and bureaus should independently handle problems, make decisions, and be directly responsible to the provincial government. Instead of commanding, issuing orders, and exercising control, the provincial departments should guide, coordinate, and serve. They should in particular properly serve people. Administrative departments should carry out reforms at the same time, have the courage to abolish outmoded conventions, and lay down new conventions. They should absolutely not affect the overall situation by disputing over trifles or by impeding one another. General departments including those in charge of financial affairs, planning, pricing, and labor and personnel should keep abreast of the reforms. It is necessary to separate government administration from the management of enterprises, to put an end to the division of departments and regions at different levels and the separation of the urban areas from the rural areas, to turn the organs in charge of the administration of economic departments into economic units, to gradually streamline the administrative organs, and to gradually reduce the number of things and matters within their jurisdiction. In future, with the exception of a few backbone enterprises, which are to be administered by the central or provincial

authorities, the other enterprises are to be put by stages and in groups under the administration of the cities in which they are located in order to give full play to the role of the key cities. In addition, we should also add to the strength of the "brain trusts" and information feedback organs at all levels, establish centers for studying all facets of the economy, and train the masses of cadres in the organs to be capable of doing economic work. In this way, these cadres can strive to become capable of managing production and business and doing scientific and technological work. Leading cadres of the government departments should resolutely overcome bureaucracy, strengthen their revolutionary sense of responsibility, be more devoted to the revolutionary cause, and strive to improve efficiency, to free themselves from the "mountains of documents and seas of meetings," change their style of leadership, go deep into the realities of life, conduct investigations, concentrate efforts on discussing the reforms, have the overall economic situation well in hand, and push forward economic work and the work in other areas.

Fellow deputies! We are living at a time of great historical changes and we are confronted with a new situation in the reforms. Our task is arduous yet glorious. Our burden is heavy and yet the road is long and winding. We should, under the leadership of the CPC Central Committee, the State Council, and the provincial CPC Committee, unite with and rely on the people of various nationalities in our province, be full of confidence, explore, advance, create a new situation in all fields of socialist modernization with a firm and indomitable fighting spirit, and, with new outstanding achievements, pay tribute to the 35th anniversary of the founding of the PRC!

CSO: 4006/682

PROVINCIAL AFFAIRS

HUNAN ESTABLISHES PROVINCIAL ECONOMIC RESEARCH GROUP

HK030834 Changsha Hunan Provincial Service in Mandarin 2300 GMT 2 Aug 84

[Text] Yesterday evening, provincial research association for the quick method of seeking the best technical solutions--the overall planning method, and economic mathematics held an inaugural meeting. Our country's well-known mathematician, Professor Hua Luogeng, provincial CPC Secretary and Governor Liu Zheng, provincial CPC Committee Standing Committee member Yin Changlin, provincial PLA District Commander Jiang Jingliu, relevant experts, professors, and scientific and technological workers from inside and outside the province and the leaders of relevant departments directly under the provincial authorities and of the relevant departments in Changsha City, 150 people in all, attended the inaugural meeting yesterday.

(Hou Zhengting), a professor at the Changsha Institute of Railways, gave the opening speech. Amid enthusiastic applause, Professor Hua Luogeng gave a speech. He said: I am very glad to attend the inaugural meeting of this association and very much appreciate the concern shown by the leaders of the provincial CPC Committee. I have been abroad for 10 months. As soon as I returned home, heard the news of the establishment of the association, and received an invitation from Governor Liu Zheng, I immediately hurried here to attend the meeting.

He said: I hope that you will run the association in such a way as to enable it to have some distinguishing features, strive to promote our economic construction and create wealth for the people.

Next Governor Liu Zheng gave a speech and said: We are greatly inspired that our respected Professor Hua made a special trip to attend this inaugural meeting of the association. He concluded by expressing his hope that the members of the association will learn from Hua Luogeng's spirit of seeking truth from facts and provide better service for Hunan's economy, and his hope that the association starts its work from reforms, learns from and popularizes the practice of the Zhuzhou Electronics Research Institute in popularizing science and technology and by compensation responsibility contracts, continue to develop their scientific and technological undertakings, combine their research with the quick method of seeking the best technical solutions, the overall planning method, modern technology and with the application of microcomputers and thus make their work extremely effective.

PROVINCIAL AFFAIRS

BRIEFS

ECONOMIC COMMITTEE STREAMLINES STRUCTURE--To keep pace with the situation in reforms, the provincial Economic Committee recently streamlined its administrative structure and transferred part of its power to cities, prefectures, departments, bureaus, companies and enterprises in order to extricate itself from heavy routine work and to concentrate its main efforts on investigation and studies so as to be able to make overall decisions. After the administrative structure was simplified and part of powers were transferred to a lower level, the major tasks of the provincial Economic Committee are: 1) to concentrate efforts on planning, 2) to formulate systematic economic policies, 3) to control major production tasks, and 4) to help departments, bureaus, and companies work in good coordination and to arbitrate disputes between them. According to this principle, the provincial Economic Committee has reduced its sections and offices from 17 to 11. [Text] [HK021506 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 2 Aug 84]

CSO: 4006/682

ECONOMIC PLANNING

SONG PING DISCUSSES CHINA'S ECONOMIC CONDITIONS, PROBLEMS

Beijing LIAOWANG [OUTLOOK] in Chinese No 6, 6 Feb 84 pp 8-11

[Article by Hu Guohua [5170 0948 5478]: "The Situation is Gratifying, We Must Make Greater Efforts: Interview with Song Ping, State Councilor and Minister in Charge of the State Planning Commission"]

[Text] "In general, the current situation in China's economy is gratifying. The Sixth 5-year Plan's (1981-1985) target for gross agricultural and industrial output value was attained last year. This indicates that much hope exists for achieving the struggle objective established by the 12th CPC Congress, which is to quadruple gross industrial and agricultural output value by the end of this century. Nevertheless, we must remain sober-minded, and we must recognize that many important economic indicators still fall quite short of the targets of the Sixth 5-year Plan, that much work remains and that many problems urgently await resolution." This is what Song Ping [1345 1627], state councilor and minister in charge of the State Planning Commission, said to me in the parlor of his home.

I

"Could you be more specific?"

"Certainly. Have some tea first, there's no rush." Serene and composed, Comrade Song Ping possesses the poise of an elder and is very cordial. Lifting a thermos, he filled my teacup and added a little water to his own.

This was by no means our first meeting. I had interviewed Song Ping many times before, when he served as the first secretary of the Gansu Provincial Party Committee. He is from Ju County in Shandong and is 66 years old this year. He was a student at Qinghua University prior to the Anti-Japanese Resistance War, and during the 9 December Movement he joined the revolution along with many other progressive students. Like many other intellectual cadres, he is well versed in the economic theory of the Marxism-Leninism, has worked exclusively in economic development and thus may be considered one of the high-level cadres in our party who "knows economics." While serving in Gansu, he deeply impressed local cadres with his erudite economic learning, rich economic work experience and pragmatic work style. Later,

he was assigned to the State Planning Commission due to work needs. Because our magazine wanted to do a report on the current state of China's economy, he agreed to set aside some of his free time in the evening to see me at his home.

Sipping some tea, he reflected for a moment and said, "Last year many areas of China's economic development definitely performed better than anticipated. Conditions in agriculture, industry, domestic markets, fixed-capital investment, finance, science, education, culture, health, sports and the people's standard of living all improved over previous years. This represents quite an achievement."

"As you probably know, many areas in China suffered natural disasters last year. During the summer, South China experienced torrential rains, and flooding threatened the major grain and cotton-producing districts along the middle and lower reaches of the Chang Jiang and even Ankang and other areas in southern Shaanxi. Due to continuously wet weather in the Northeast, the low-lying land on the Sanjiang Plain of Heilongjiang experienced water accumulation and serious waterlogging. From June until August, we received countless requests for disaster relief from all areas of China. Nevertheless, all levels of the party organization and the government actively led peasants in resisting disaster, the production responsibility system was implemented everywhere and thus bumper harvests of grain and cotton were still achieved. Last year, national grain output exceeded 740 billion jin, an increase of more than 40 billion jin over the previous year; national cotton output exceeded 80 million dan, an increase of more than 12 million dan over the previous year and double that of 1978. The situation in industry is also very good. Last year, gross industrial output value increased 10.2 percent over the previous year, with heavy industry growing by 12.1 percent and light industry by 8.4 percent. Among major industrial products, coal, oil, steel, cement, sulphuric acid and plastics output exceeded the plan."

He told me that the news that China had achieved the Sixth 5-year Plan output targets for industry and agriculture 2 years ahead of schedule was formally announced when Comrade Deng Xiaoping received Prof Yang Zhenning [2799 2182 1337], a famous American physicist from the New York State University at Stony Brook. Song Pink then continued, "Because a relatively high rate of expansion was maintained in light industrial output and supplies of agricultural and sideline industry goods increased, the total value of retail sales of social commodities increased in 1983 by more than 10 percent over the previous year. This rate is pretty good, and sales of such foods as meat, poultry and eggs increased even more. Since the beginning of winter, sales of all types of lightweight, soft and warm down, acrylic and cotton clothing have been brisk. Demand for durable consumer goods is also rising. Following the relaxation of price controls, the production and supply of small commodities improved last year. And with the development of workers' education, reading and scientific cultivation, the sales of books, textbooks and popular science publications have increased greatly. Amidst general market price stability, occasional price increases occur, the greatest being those for vegetables, fish and other nonstaples."

He also stated: "Fiscal conditions are basically good too. Since bumper harvests continued in agriculture and production increases were maintained in industry, government revenue rose last year, continuing the trend revived in 1982. Even though expenditures have increased rapidly, the rise in revenues and the measures adopted by central authorities to concentrate funds have met the needs of key state construction projects and all undertakings. Last year, revenues and expenditures were basically balanced."

## II

"How did this gratifying state of affairs occur so rapidly?"

Comrade Song Ping cheerfully replied: "It is due to the conscientious implementation of all centrally formulated policies by, and the effort and hard work of, the people of the entire nation."

He noted that the steady improvement in agriculture has contributed greatly to the turnaround in the national economy and that conditions in agriculture are inseparably related to the central authorities' rural policies. He said, "During my study in the recent party consolidation campaign, I reread all relevant documents distributed by the central authorities since the Third Plenum, and I feel that this series of policies is definitely very correct. In the past few years, rural policies have mobilized peasant initiative, whereas in the past this was not achieved, and the state spent much money and effort with little effect. I learned from Comrade Du Runsheng [2629 3387 3932] that peasants are now farming much better than in the past. They are planting more, closer and more meticulously, using every corner and margin. This is equivalent to increasing the sown area."

Then Song Ping concretely analyzed the influence of policy on rural commodity production and the stimulus that agriculture provides to industry. He stated that rural commodity production has increased very rapidly since the policy was liberalized, and many projects have advanced very smoothly, whereas in the past they had performed sluggishly. Of these projects, chicken and fish raising have shown marked success. The development of rural commodity production increases the peasants' incomes and provides work for surplus labor. In the past, everyone was bound to the land, could not escape and could not make the most of his intelligence and talent. Now this situation has greatly changed, and the expansion of rural production has had an obviously stimulating effect on the entire economy. With money in their hands, the peasants' purchasing power naturally increases. Walking tractors have become hot items in the countryside, and supplies of chemical fertilizer fall even shorter of demand. With the improvement in peasant living standards, home building has become very widespread. Cement, glass and other construction materials are therefore in great demand, and many peasants are willing to pay high prices for these items. These phenomena have undoubtedly promoted the development of related industries.

"As for industry in general, it is obvious that the centrally formulated eight-character policy of readjustment, restructuring, consolidation and

improvement has taken effect," said Song Ping, turning to the industrial sector. "Due to selective support, light industry has developed fairly rapidly, and heavy industry has expanded very fast. Energy saving in the steel industry has proved very successful, for while steel output grew by 4 million tons, energy consumption did not increase. This provides an ample indication of the superiority of a primarily planned economy. Naturally, planning must conform to objective laws and be practical. Nevertheless, many years of experience have shown that there are numerous factors in economic life that cannot be anticipated, and thus planning must be reliable and practical and leave room for flexibility, especially the latter as our economy undergoes readjustment. We have provided for such flexibility in our plans for the past 3 years, and the results have exceeded targets. Facts prove that this policy has not limited the expansion of overall industrial and agricultural output but rather that high targets, such as those of the past, create tension everywhere and yield poor results. This lesson is well worth remembering in our future economic development."

### III

Probably because he has long borne leadership responsibilities in economic departments, Comrade Song Ping displays lucid reasoning and an excellent memory. In his speech, he employs a mild tone of voice and rigorous diction. And while he may have no data at hand, he adduces in conversation reams of figures errorlessly, provides meticulous analysis and thus is very convincing. I was very impressed when I interviewed him in Gansu, and I continue to admire him in this regard.

After reporting the good news on China's economy, Comrade Song Ping turned to a discussion of the problems in China's economic development that we must emphasize and resolve. He stated that while conditions may be excellent, we must remain sober-minded and recognize existing problems. Only in this way can we avoid slackening our efforts and continue to advance on the crest of victory. Central leadership comrades have reminded us many times that we must be attentive to past lessons in this regard. After socialist transformation was completed, conditions in China were very good, but as a result of imprudence and hotheadedness, we undertook the "Great Leap Forward" and created many serious difficulties. Encountering these difficulties, we sobered up and conducted readjustment, and by 1965-1966 conditions were not bad. Then we dispensed with caution again and caused the entire country to suffer an even greater catastrophe. With the smashing of the "gang of four," conditions improved greatly, but by 1978 we once again lacked sufficient prudence and did some shortsighted things. This time, the party Central Committee and the State Council drew upon past lessons and, on their own initiative, resolutely implemented readjustment, thus making possible the current gratifying state of affairs. Therefore, we must never forget the lessons of the past; when meeting success, we must remain cognizant of inadequacy and latent problems, remember historical experience and work cautiously.

Regarding existing problems, he says that energy and communications do not meet the needs of economic development and that a prominent contradiction between supply and demand exists in these areas. "Therefore, we must further improve economic results and reduce inadequacies in energy and communications. If conditions in these two areas are improved somewhat, our enterprises can give better play to their productive potential, and economic results will be even better. And if the situation in energy is not improved as soon as possible, future expansion of industrial production will be affected, and economic development will not prove durable. Naturally, to improve economic results, we must also strengthen economic management and rely on progress in science and technology [S & T].

Raising the level of S & T is also an urgent task. Some comrades are still interested only in output volume and value, emphasize speed and overlook results, the technological transformation of existing enterprises and the raising of the level of S & T. This will not do. If we have only speed and output and no progress in S & T, S & T will remain at their original levels; even if output quadruples, we would not achieve modernization. The core of modernization consists of progress in S & T, and the modernization of S & T is crucial to the four modernizations. Thus we must be resolved to carry out technological transformation. Many enterprises use outmoded equipment and backward technology. If we appropriately concentrate financial and material resources, organize the broad masses of scientists and technicians and implement technological transformation of existing enterprises, we will achieve outstanding results. To modernize industrial technology, we must import advanced technology and essential equipment, but reliance on imports alone will not suffice: Purchases alone cannot buy modernization, and imported technology remains at its original level and quickly becomes outdated. The 300,000-ton ethylene equipment we imported, for example, has been upgraded many times, and the energy thereof has been reduced. Would we not have been backward had we remained at the same technological level as the original import? Thus we must strengthen our own scientific research and technological development work and advance technological transformation continuously."

At this point, he especially addressed me and urged: "There are many issues in this area that deserve study, and you reporters ought to be attentive to them, conduct investigative studies and promote the development of S & T from every angle, for this work is well worth doing. You should give full play to the strengths of your profession." He added, not without envy, "The work of reporters is pretty good; I like the profession very much." I knew before that he had been a reporter with XINHUA RIBAO in Congqing during the Anti-Japanese Resistance War, when he worked at the side of Comrade Zhou Enlai. It appears that he is still nostalgic about the profession.

Comrade Song Ping told me that prior to our interview, he had spent the entire day in a conference with several members of the Scientific Council of the Chinese Academy of Sciences, listening especially to their ideas regarding how to accelerate progress in S & T. It appears, he said, that

we possess a certain amount of ability to solve key S & T problems, and if we organize all we can accomplish much. Nevertheless, there is insufficient stress on intermediate experimentation and technological development, much work lags, research results have not been quickly applied to production and the extension and application of S & T have not been handled well enough. Although we do not have many computers, the utilization rate of those we do have remains very low. He emphasized that modern S & T has developed extremely rapidly, and someone has said that in the past we experienced small changes over 10 years but now we undergo large ones in 3. For example, the electronics industry has advanced very rapidly, and developed countries have applied microprocessors extensively in production and management and also in large quantities for home use. If we do not strive to keep up, we shall fall very far behind. We cannot copy foreign countries in everything, yet we must recognize the urgency of the problem and, based on China's actual conditions, open a new path to developing S & T that is suited to China.

In addition, he also discussed the matters of the proper way to handle the relationship between accumulation and consumption, progressively increase the relative importance of government revenues in the national economy and continue the efforts to restructure the economic system. Finally, he said that the primary tasks of economic and social development in 1984 are to persevere in the policy of readjustment, restructuring, consolidation and improvement; further rearrange economic relationships; strive to improve economic results; maintain a basic balance between fiscal and credit income and expenditure; concentrate the necessary strength to advance key production and key construction projects; and ensure the coordinated and stable development of the entire national economy. He emphasized that during readjustment it is extremely important that we strengthen economic management. At present, difficulties persist in finance, and the economy is still not well ordered. Under these conditions, we must not lose control no matter what, especially in the area of increasing funds for fixed-capital investment and for consumption. Otherwise, we will not be able to create new conditions for restructuring, and we will produce new difficulties and chaos.

As we parted, Comrade Song Ping told me confidently that if we resolutely implement the central authorities' general and specific policies, we shall be able to resolve and overcome all the difficulties and problems we confront.

Indeed, with the assurance provided by the central authorities' correct line and policy, China's modern development will surely continue to advance smoothly.

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CSO: 4006/419

AGGREGATE ECONOMIC DATA

BRIEFS

SHANGHAI ECONOMIC STATISTICS--The Shanghai Municipal People's Government General Office held a press conference this afternoon. According to the conference, Shanghai's economy saw an all-round development while it was making reform and implementing the open-door policy during the first half of this year. Its total industrial output value reached 36.4 billion yuan, which accounted for 51.6 percent of the 1984 plan and showed an 8.8 percent increase over the corresponding period of last year. Statistics also show the neighborhood industrial output value increased by 45.8 percent over the corresponding period of last year, which greatly exceeded the speed of the growth of industry under the ownership by the whole people. According to the conference, total volume of export in foreign trade in January-June exceeded \$1.7 billion, which accounted for 66 percent of the 1984 plan. Shanghai also signed contracts on 10 projects financed with foreign capital, totaling \$251 million. During the first half of this year, Shanghai built housing projects with total floor space of 6 million square meters, a 19.9 percent increase over the corresponding period of last year. The Shanghai Exhibition Hall signed a contract on its extension project. According to the contract, a new hall will be built to form the Shanghai Exhibition Center, which will include a hotel and an art center with 1,100 to 1,200 seats. Today's press conference was presided over by (Qian Xuezhong), vice secretary general of the municipal government and concurrently director of the general office. The conference declared that the municipal government is preparing to establish an information department.  
[Text] [OW310239 Shanghai City Service in Mandarin 1100 GMT 28 Jul 84]

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UNIFIED MANAGEMENT OF FIXED ASSETS INVESTMENT

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[Article by Liu Lixin [0491 4409 2946] of the Head Office of the People's Construction Bank of China and Cao Erjie [2580 1422 7132] of the Investment Research Institute of that bank: "Unified Management and Coordination of Investment in Fixed Assets"]

[Text] 1. Posing the Question

Investment in fixed assets is an investment that establishes and safeguards, the productive force. The economic results of investment in fixed assets, whether in the capital construction of new enterprises or in the renewal and technological transformation of old enterprises have a direct bearing on the growth rate of our industrial and agricultural production, financial and economic stability, scientific and technological development, the improvement of our people's livelihood and the strengthening of our national defense. Judging by the experiences that the construction bank has gained in more than 30 years of management of investment in fixed assets and by the results of the investigation in the past few years related to 30 products and trades, the extent of the economic results of the investment in fixed assets is to a great extent linked with the question of whether or not the state has conducted a unified planned management over the investment in capital construction, renewal, and technological transformation. Conducting unified planning is a key to increasing the economic results of investment.

During the 34 years since the founding of the PRC, by the end of 1983, our country spent a total of 1,163.4 billion yuan in the investment in the fixed assets in the units wholly owned by the people, including both the investment in the capital construction of new enterprises and that in the renewal and technological transformation in old enterprises. Of this amount, 644 billion yuan was invested in acquiring various kinds of additional fixed assets in our capital construction. (Footnote 1) ("Statistical Data' on the Great Achievements in Social and Economic Development in the 35 Years Since the Founding of the PRC," HONGQI, No 9, 1984, p 37) This was a tremendously great achievement in our country's economic construction. It constituted the material and technological foundation for our four modernizations. The problems now are that though the amount of our fixed

assets and equipment is not small, their technology is outdated and backward and a fairly large number of the products produced by these fixed assets and equipment require excessive material and energy consumption in their production and are of poor quality. Some of the products do not meet the demand of the market and are therefore stockpiled. Many old enterprises have incurred large amounts of deficits for the renewal of their fixed assets. It is estimated that these deficits exceed 100 billion yuan in total. Taking into account the losses in the value of fixed assets due to obsolescence caused by technological progress, the situation is even more serious. At the same time, ours is an era when science and technology make progress by leaps and bounds, therefore, we are faced with a challenge of a new technological revolution and it is necessary for us to develop most advanced technology and establish new rising industries and enterprises. Moreover, in order to transform our old cities, we should reorganize specialized cooperation, restructure our industries and combine our enterprises. For all the above-mentioned purposes, we should invest in fixed assets in both capital construction and technological transformation. This raises a question of how we are to increase the economic results of our investment through unified planning.

## 2. A Review of the History of Our Management Over the Investment in Fixed Assets

In handling the relationships between capital construction and technological transformation, our country's planned management over its investment in fixed assets has undergone twists and turns.

During the first 17 years (from 1950-1967), a practice of centralizing all revenue and expenditure was carried out in our finance and the depreciation funds of our enterprises were handed over to the state to be spent in a centralized manner. The renewal and technological transformation in our enterprises were treated as projects of reconstruction and extension under the unified arrangement of the state and included in its plans for capital construction. Big projects such as the Anshan Iron and Steel Complex, and the ordinary projects such as Shanghai Red Star Bicycle Plant, Jiangnan shipyard and Jiangsu Yongli Limonene plant were all projects that combined renewal and extension with capital construction. During that period, with the exception of the dislocation caused by the malpractice of pursuing excessive targets, "keeping two sets of accounts," and increasing the scale of capital construction level by level and thus making it exceed our capacity during the 3 years of the "Great Leap Forward," a malpractice that gave rise to the deficits in the renewal of industrial boilers, automobiles, diesel engines and locomotives incurred by the four major cities of Beijing, Tianjin, Shanghai and Shenyang: during the whole period of the first 5-year plan and the readjustment period from 1963-1965, because of the implementation of the unified planned management over the investment in fixed assets, the proportion between accumulation and consumption was relatively appropriate and the scale and orientation of investment was relatively rational. This enabled our production and construction to develop relatively smoothly.

In the early 1960's, some comrades thought that letting our enterprises retain their depreciation funds would enable us to avoid deficits in renewal. Some departments also demanded that the depreciation funds be retained by enterprises in order to avoid a repetition of the mistakes of the four major cities in incurring deficits in renewing their equipment. Beginning from 1967, our enterprises no longer handed over their depreciation funds to the state. In this period, moreover, a fairly large amount of our finance was allocated to support our enterprises in tapping their potential and carrying out technological renovation and transformation. A part of the funds for capital construction was also allocated to the investment for renewal. From 1967 to 1983, the amount of retained depreciation funds and the financial allocation for renewal and transformation totaled 230 billion yuan. This ought to have been enough to ensure the renewal of our equipment. However, we incurred even greater deficits for our renewal of equipment. Of course, the chief cause that gave rise to this situation was the prolonged influence of "leftist" errors. During the 10 years of internal disorder from 1966-1976 and the campaign of "going all out and making quick development" in 1978, we pursued excessive targets, an excessive scale of capital construction, and an excessively great rate of accumulation. All sectors wanted to invest more money to increase their number of capital construction projects so as to obtain greater production capacity to ensure the fulfillment of the excessive production targets. As a result, not only was our financial revenue mainly spent in capital construction with the establishment of new enterprises as the major form, but most of the funds retained by our enterprises for renewal and transformation were spent in capital construction. These funds for renewal and transformation were collected by departments or areas and invested in capital construction or were spent by the enterprises themselves in expanding their production capacity. This resulted in the scale of our capital construction growing out of control, there being an excessively large number of capital construction projects and an excessively large capital construction scale, with no guarantee for the renewal and transformation in our enterprises, and our equipment and technology continuing to be as outdated and backward as before. In theory, the cause for the malpractice in the management of the investment in fixed assets in this period was the idea that "accumulation was the only source for expanded reproduction," an idea which erroneously regarded capital construction as being identical with expanded reproduction and provided a "theoretical ground" for the malpractice of excessive capital construction and accumulation. In our planned management, the cause for this malpractice was our failure to carry out unified planned management over the investment in fixed assets. For a very long time, our state plans failed to set their targets for the investment in fixed assets. Our plans only took into consideration the investment in capital construction, but excluded from the construction scale of the state the large amount of investment that was necessary for the renewal and transformation in our enterprises. The practice of "borrowing and returning funds on one's own" outside the plans for capital construction was encouraged in 1978 even for the large construction projects that drew in foreign funds to import full sets of equipment. This was aimed at separating these projects from our finance. However, it was impossible for these projects to be separated from our finance and

finally, the state finance had to take them over. This was one of the reasons why in that period, we could not consciously control the expansion of the scale of investment in fixed assets. It was also one of the reasons why we could not control the spending of the renewal and transformation funds for unqualified purposes and failed to thus prevent excessive deficits. The problem in that period was that we followed a path of attaching importance only to capital construction, neglecting production, pursuing excessive accumulation, and achieving low efficiency. On the one hand, we hankered after the pursuit of capital construction and concentrated our funds on the establishment of new factories; in particular, large factories for heavy industry that needed large amounts of investment and took a long time to build. On the other hand, we deprived our existing enterprises of large amounts of their renewal and technological transformation funds and used these funds to establish a large number of medium-sized and small factories that were technologically backward. To be more specific, we deprived the backbone automobile plants such as the "No 1 automobile plant" and the plants in Nanjing, Jinan, Shanghai, Tianjin and Beijing of their funds for the renewal of their equipment and used these funds to establish 130 medium-sized and small automobile plants that were technologically backward and produced the same pattern of vehicles. We deprived the iron and steel complexes at Anshan, Wuhan, Baotou, Taiyuan and so forth of the funds for technological transformation and renewal of equipment and established a number of medium-sized and small iron and steel mills that were technologically backward, incurred excessive consumption, produced products of poor quality and yielded little output with much input. We deprived the chemical plants at Jilin, Lanzhou and Nanjing of the funds for the renewal of their equipment and set up many medium-sized and small chemical plants that were technologically even more backward. Now, with the exception of a very small number of large factories equipped with advanced technology, nearly all our enterprises are faced with a task of renewal. The equipment in our old enterprises has to be replaced because it has outlasted the normal working life, while the equipment in our new enterprises should also be replaced because of its backwardness in technology.

### 3. Current Problems in Our Management Over the Investment in Fixed Assets

Since the 3d Plenary Session of the 11th CPC Central Committee, we have implemented the principle of "readjusting, restructuring, consolidating and improving," corrected the "leftist" mistakes in our economic construction, reduced the scale of our capital construction and required that investment in fixed assets be included in the unified planned management of the state. Since 1982, we have formulated unified plans for the investment in fixed assets for both the investment in capital construction and that in renewal and transformation. This has meant great progress in our management over the investment in fixed assets. During the past few years, we have gained identical understanding on the question of the necessity of controlling the scale of the investment in capital construction. At the same time, all sectors have begun to attach importance to the technological transformation in our existing enterprises. Technological transformation has already begun in 550 machine-building and electronic industrial enterprises and in our key enterprises such as the No 1 automobile plant, the

Anshan iron and steel complex, the enterprise at Daye and the chemical plant at Nanjing. Our local financial departments and banks have also begun to support the transformation by providing funds. In this manner, we have taken a new step forward.

Concerning the management of the investment in fixed assets at present, it is true that we have formulated annual plans for the investment in fixed assets, but some new problems and new contradictions have emerged.

First, the initial economic structural reform in the past few years has given play to the initiative of various sectors and there have emerged a variety of new channels to raise funds. There has not only been the funds allocated by the state financial budgets, but also the investment arranged by localities on their own with their reserve financial resources. Some enterprises used their renewal and transformation funds and production development funds to arrange their investment in capital construction and technological transformation; others have borrowed from banks to fund their investment, still others used a variety of extra-budget funds (such as the maintenance and simple reproduction funds in our mines, the maintenance funds in our oilfields, the road maintenance funds, the funds for overhauling and the civil maintenance funds) to arrange their investment projects. We have also drawn in foreign funds to introduce technology from abroad. The problem now is that we have failed to make our planned management all-inclusive and thus it will be easy for loopholes to emerge in the supply of materials and goods. In 1983, a shocking impact was produced by the unauthorized price hikes of some materials on the key construction projects of the state. This had much to do with our funds' management.

Second, modern industry is a socialized mass production. However, our current investment in capital construction is basically arranged separately department by department and area by area. Often, we fail to take enough consideration of the vertical and horizontal coordination between different projects and thus fail to carry out our construction in a synchronous manner. As a result, when a project is completed, it cannot go into operation because other supporting projects are not completed in time. During the past few years, the construction bank has readjusted more than 500 projects that have gone into operation and found that because of the unsatisfactory coordination in forming complete sets, one third of these projects cannot fully bring about the investment results in time.

Third, we lacked the guidance of the planning of various trades in our planning structure. We have indeed implemented mandatory plans in our planned management on the general scale of investment, the large and medium-sized projects of our capital construction investment, the projects of renewal and transformation investment that are arranged by the state with the depreciation funds that are centralized by the state, and some of the projects funded by bank loans. However, we only control the total amount of the depreciation funds, the funds that departments and areas have spent in renewal and technological transformation and some of the bank loans, but fail to give quantitative and orientational guidance in the light of the relationships between various trades. As a result, there has been the

practice of "localities investing their money on their own, enterprises carrying out technological transformation on their own, and banks providing loans on their own." Thus a new problem of inflation in the investment in fixed assets, duplicated construction, and blind construction has cropped up. In 1983, we basically controlled the scale of capital construction, but our investment in technological transformation exceeded the planned figure. On the surface, we invested more than 20 billion yuan each year in technological transformation, but in fact, a major part of this sum was used to expand production capacity and build residential housing for our staff and workers and only a small part of it was used in improving and developing products. Therefore, we have not yet solved the problem related to deficits in the renewal of our fixed assets.

#### 4. It Is Necessary to Arrange in a Unified Manner the Employment of the Funds for Capital Construction and for Renewal and Transformation

In his Government Work Report to the Fourth Session of the Fifth NPC in 1981, Premier Zhao Ziyang pointed out: "In order to effectively promote the technological transformation, in the investment in fixed assets in the future, we should arrange in a unified manner the employment of the funds for capital construction and for renewal and transformation." "In the future, our enterprises must spend all their depreciation funds, their production development funds which are retained from a part of their profits and the relevant funds allocated by upper-level departments solely in their technological transformation and renewal of equipment." Moreover, he emphatically pointed out: "These funds must not be spent in new construction projects or for other kinds of expenditure." This is entirely correct and necessary. It is identical with the principle put forth by Comrade Chen Yun in 1979 on "paying attention to production first and then to capital construction; and paying attention to tapping potential, renovation, and reforms first and then to building new projects."

People in our theoretical circles and people doing practical work differ in their views on the question of whether we should include capital construction and renewal and transformation in our unified plans for management. People often hold that the investment in capital construction can increase our production capacity and is therefore a kind of activity of expanded reproduction and that capital construction requires a large amount of investment and a long time to complete. Therefore, they think that the state ought to strengthen its planned management over capital construction. As for the investment in renewal and technological transformation, it seems to them that because this is only an investment to renew and compensate the original production capacity, we can allow our enterprises to manage this investment independently and the state should only give its guidance to control the total amount of the investment and need not intervene too much in it. As a matter of fact, modern economy is very complicated. A grim fact in our current economic life is that it is not just the existing equipment in a few enterprises that needs replacement because the equipment has outlived its useful life; it is our entire industrial sector that is faced with an imperative necessity of substituting a new generation of products for the old one and carrying out technological transformation.

In order to really solve this problem, we should not renew the equipment of our enterprises piece by piece, a practice of duplicating the outdated equipment in our old enterprises. We must not only eliminate through competition old products and develop new products, but should also eliminate through competition a number of technologically backward enterprises and equip a number of backbone enterprises. Moreover, we should urge our enterprises to form combinations and reorganize specialized cooperation in combination with the reform in our urban areas and the restructuring of our industries. On this basis we will achieve the technological transformation of each trade as a whole. As every trade needs developing now, we must make a distinction between what is more important and urgent and what is not so important and urgent, and between major and minor tasks. In order to achieve this aim, the only thing we can do is to strengthen the state's planned management over the investment in fixed assets in our old enterprises in the light of the nature of their trades, products, and the areas where they are located. The state should take the whole situation into consideration in making overall arrangement and include both renewal and transformation and capital construction in its unified plans. We should not build new projects whenever the production capacity can be increased through the renewal and transformation in our old enterprises. Only by so doing, can we enliven our economy while avoiding blindness in our actions.

There are 688 plants in our phosphate fertilizer industry. These plants use outdated equipment and backward technology to produce ordinary calcium superphosphate, a product of the first generation. The total annual output is 2.5 million metric tons. However, in foreign countries fertilizer with greater effect such as double superphosphate and ammonium phosphate is being produced. In carrying out technological transformation in this industry, the question is whether we should renew the outdated equipment in our existing enterprises or should gradually eliminate through competition the production of ordinary calcium superphosphate and the factories producing it, and select and reequip a number of factories where there are necessary conditions to switch to the production of double superphosphate and ammonium phosphate. Gradually substituting double superphosphate and ammonium phosphate for calcium superphosphate is a question that can only be decided by the state in its overall planning and should not be decided by our enterprises on their own.

There are 13 large factories, 52 medium-sized factories, and 1,250 small factories in our nitrogenous fertilizer industry. Except for the large equipment introduced from abroad, these factories use backward technology and outdated equipment to produce products of low grade. A large part of their product is ammonium bicarbonate which requires excessive consumption in its production and has low effect as a fertilizer. In 1982, these factories had a capacity to produce 17.52 million metric tons of synthetic ammonia but their actual output of ammonia was only 13.92 million metric tons. The Ministry of Chemical Industry has formulated a tentative idea for the scale of development by 1990, but the scale of transformation and capital construction projects arranged by localities and enterprises will be one third greater than that of the tentative plan of the ministry.

This will give rise to three problems: 1. We need a mature plan to transform the product mix, technology, and equipment in this industry. However, before this plan had been formulated, 15 of our medium-sized factories have planned to switch to the production of urea, 6 of them have planned to switch to the production of ammonium nitrate, 4 of them have planned to switch to the production of nitrate phosphate fertilizer, and quite a few of our medium-sized and small nitrogenous fertilizer factories have planned to develop the production of methyl alcohol. If transformation is carried out in this manner, it is very difficult for us to avoid blindness. 2. Of the 1,250 small factories, the Ministry of Chemical Industry plans to transform 250 of them in each of the sixth and seventh 5-year plan periods and reduce their number to 800 by the end of this century, but the localities and enterprises have planned to transform 968 of them in the sixth 5-year plan period and build 100 new small factories. 3. The excessive increase in nitrogenous fertilizer will fiercely harden our soil and worsen the imbalance between the proportion of nitrogen, phosphorus, and potassium in our soil and thus hinder the growth in our agricultural production.

The kilns in our country's industrial sector consume an excess of 20 to 30 million metric tons of energy (in terms of standard coal) every year. The key reason for this excessive consumption is the shortage of high-grade refractory that can resist high temperature and pressure. There are 903 refractory factories throughout our country, of which 214 are above county level. These factories turn out 4.18 million metric tons of refractory every year, an output ranking second in the world. Their gross output value totals 800 million yuan, their tax payment and profits total 176 million yuan, and their ratio of taxes and profits to output value is 22 percent. On the surface, the economic results are quite good. The problem is the backward technology. Eighty percent of our kilns are flame reverse kilns of low efficiency and 90 percent of the brick forming presses work with a pressure less than 500 metric tons, while foreign countries are using automatic brick forming presses with a pressure as high as 1,500 to 2,000 metric tons. They use rotary furnaces burning petroleum and natural gas to roast magnesia and can thus attain 98 percent of purity, while ours are mostly vertical and simple kilns and we burn coal as a substitute for petroleum. Therefore, we can only attain a purity of 95 percent. That is why we cannot produce with first-grade raw materials high-grade refractory bricks of high purity and density. Of our product, 80 percent are ordinary refractory bricks of the first generation, while abroad, they produce large amounts of high-grade refractory bricks and new-type light refractory. Here a problem is raised of how we are to make an overall arrangement to readjust our product mix and renew our outdated equipment. Furthermore, abroad, they use 42 kilograms of refractory on average to produce 1 metric ton of steel, while our country uses 112 kilograms. If we succeed in producing high-grade products and attaining the average level of the world, we will ensure the satisfaction of the demand for producing 39 million metric tons of steel by producing only 1.7 million tons of refractory.

Another example is our industrial boilers. All over our country, there are 230,000 boilers for industrial purposes which have a capacity of 520,000 metric tons of steam. At present, they consume 200 million metric tons

of coal with a heat utilization rate of 50-60 percent and thus consume 30 million metric tons of energy each year. If we replace 60,000 backward and outdated boilers with ordinary boilers that we produce now, we will be able to conserve 8 million metric tons of coal each year. If these boilers are replaced by highly-efficient energy-conserving boilers, the amount of coal conserved will be doubled and could total 16 million metric tons. However, the key to actually and sharply increasing the heat utilization rate of our boilers is to concentrate the supply of heat, combine the production of heat with that of electricity, and increase the capacity of each of our boilers. Now the average capacity of the boilers in our country is 2.1 metric tons per hour, while that of foreign countries is 10 metric tons per hour and that of the United States is 14 metric tons per hour. This means that our country uses five boilers to produce what foreign countries use one boiler to produce and that our country uses seven boilers to produce what the United States uses one to produce. The actual increase in boiler capacity is not determined by our boiler plants or by our Ministry of Machine-Building Industry. It is determined by our plans for the transformation of our cities. Finally, how are we to transform our boiler plants? Abroad, 8 or 9 plants produce 80,000-90,000 metric tons of boiler capacity, while in our country, 209 plants produce 80,000 metric tons of boiler capacity. Moreover, most of these factories have only the principle machinery and lack the supplementary machinery and the equipment to produce the supplementary instruments and meters. Now, most of these factories have planned to expand their total capacity to 110,000 metric tons through renewal and technological transformation. If we actually carry out the renewal in this manner, we will not be able to put an end to the backwardness of our boiler industry even though we spend a lot of money. Nor will we be able to reduce the energy consumption of our industry or raise its economic results.

The sector that began to conduct planning for its own trade relatively early is our automobile industry. Since the establishment of the China Automobile Industry Company, through planning, we gradually reorganized the more than 100 automobile factories in our country and merged them into 55 factories, which were further formed into seven combined automobile companies. The backward technology and enterprises that produced duplicated types of vehicles have been eliminated and specialized cooperation has been organized in the light of the production conditions of the existing enterprises to develop new series of products. In order to overcome our weak points in lacking the capacity to produce heavy and light vehicles, we have introduced technology from abroad to develop the production of heavy and light vehicles. This kind of planning points out the orientation for the investment in our automobile industry. Even if some areas and factories use their own funds or bank loans to carry out technological transformation, it is relatively easy for us to discover, through the supervision and management over the employment of funds, which enterprises or projects have deviated from the orbit stipulated by the plans for the development of the trade.

. How We Should Strengthen the Unified Planned Management Over the Investment in Fixed Assets

In the procedures of planning to strengthen the planned management over the investment in fixed assets, in capital construction, or in renewal and technological transformation, we should first have a plan for the development of the trade. 1. This plan should stipulate a unified planned product mix for the trade, a mix which should be decided in the light of the demands resulting from the development of our national economy and society and which will tell us which products we should develop, which products we should continue to produce, and which products should be eliminated. 2. We should have a unified plan for the structure of our enterprises. In the light of the product mix, we should decide which backbone enterprises we should develop and equip, which enterprises should be merged and reorganized, and which enterprises should be eliminated through competition and be closed down. 3. We should have a unified plan for production capacity. The development of a trade can only be based on its existing production enterprises. We should not calculate the additional new production capacity in isolation from that of the existing enterprises. Through overall consideration, we should decide: How much production capacity should be eliminated, scrapped, or renewed; how many resources have already been used up and should be replaced by the production capacity newly established; how much production capacity can be provided by the renewal and technological transformation in the existing enterprises and how much production capacity should be provided by capital construction. Both our old and new enterprises should fully consider the fact that after the upgrading of their products and the substitution of a new generation of products for the old one, the improvement in the function of their products will play a rigorous role in replacing the old product. 4. We should arrange in a unified manner the investment in the renewal and technological transformation in our existing enterprises and in our capital construction. We can temporarily freeze the renewal and transformation funds of some of our enterprises which produce the products that will be eliminated, concentrate our funds on satisfying the demand for funds of our enterprises that urgently need development and renewal. 5. The best way is to draw concrete plans for the method of coordinating our policies in the light of the conditions in different trades, and apply economic levers to regulate our production and construction. For example, we can use the adjustment of tax rate and prices to prevent duplicate and blind construction related to the unmarketable products that yield an excessive rate of profits. This will be much more effective than simply using administrative interference to forbid duplicated and blind construction. We are of the opinion that as soon as the plans for the development of our trades are formulated, these plans create a basic precondition for the unified planned management over the investment in fixed assets in our national economic plans. These plans not only enforce a control over the total amount of investment, but also define the orientation of investment for each trade, thus giving orientational and quantitative guidance to the investment in capital construction, to technological transformation, to bank loans and to the utilization of foreign capital. Only by giving a quantitative guidance can we in the main control the scale of investment and only by giving an

orientational guidance can we rationally arrange the orientation of our investment and thus produce marketable products. Otherwise, the more we produce, the more we stockpile and the heavier the burden on our state. Without the plans for our trades, it will be very difficult for us to make any progress either in arranging new construction projects or in transforming our existing factories.

In view of the content of our plans, in strengthening our management over the investment in fixed assets, we should control the scale of the investment in our capital construction and in renewal and transformation. In so doing, the key is to include all kinds of investment in our plans. Including them into our plans is not aimed at rigidly controlling all kinds of funds, but is aimed at striking an overall balance so as to match the scale of construction with our national strength. When the general scale is controlled, it is relatively easy to control the range of the investment of each channel of investment. There will not be serious deviation even if a specific investment channel or project exceeds the prescribed scale.

Carrying out a unified planned management over the investment in fixed assets and including both capital construction and technological transformation into the unified state plans does not impede the implementation of various forms of management level by level and the various forms of all-round responsibility system. We hold that unified planning is a precondition and under this precondition, there can be a variety of forms of management level by level. For example, our construction projects and technological transformation projects can still be classified as large and medium-sized and small projects in accordance with prescribed criteria for sizes and then these projects will be managed level by level. We can also fix a scope for our enterprises to make decisions independently on the investment measures that are within the scope of the enterprises such as the measures for energy consumption, comprehensive utilization of raw materials, the handling of three wastes and the renewal within the scope of the authorized power of our enterprises and the reform measures (for example, the renewal of a single separate piece of equipment, the reconstruction of a dangerous building and the reform measures that do not affect the balance between production, supply and marketing). We can also regard the trade plans as demarcation lines and stipulate that our enterprises have the decisionmaking power on, and our banks are allowed to provide loans to the enterprises for, the development of the new products and enterprises that are allowed by these plans. Otherwise, the enterprises and banks are not allowed to invest or provide loans. As long as our trade plans give guidance on the general orientation and total amount of investment, there will not be any serious errors, even if a specific enterprise, kind of products, or project deviates a little from the prescribed range or even if some duplicated construction and introduction of technology emerges. However, concerning the major technological transformation that involves the renewal of major products and production line, we should strike an overall balance before making policy decisions. Of course, unified plans do not exclude various forms of all-round responsibility system. When there is a unified plan, we can more soundly contract all-round responsibility for construction in accordance with estimated calculation, divide up our projects into parts and contract

these parts separately, contract all-round responsibility for per-unit construction cost, and invite tenders for all-round responsibility contracts.

Stressing unified planning over the investment in fixed assets does not constitute a negation of the flexible application of a variety of investment methods. Since the financial and economic structural reform, we have changed the situation of centralizing income and expenditure. As a result, it is not enough to rely solely on the investment method of acquiring funds from the allocation of the state finance, because the state has many things to do but it has limited financial resources concentrated in its hands. Now, our enterprises have money and so has local finance. As the income of our urban and rural people has increased, the masses of people also have some money in their hands. We must study methods to raise funds and flexibly use diverse forms of investment, including issuing treasury bonds, collecting key energy and communication construction projects funds, levying construction taxes, attracting bank deposits, developing insurance business, inviting subscription of shares to establish factories, conducting compensation trade, purchasing things by installment payment, acquiring credit for purchases of goods, hiring equipment, selling residential housing as commodities and inviting people to deposit money for purchases of houses. By these methods, we will give play to the initiative of all circles, pool the funds of all sectors, and in some appropriate forms, turn these funds into long-term funds in order to use them in the construction projects needed by the state.

#### 6. Unified Planned Management Over the Investment in Fixed Assets Is Determined by the Law Governing the Movement of Investment

The key issue to strengthening the planned management over the investment in fixed assets is to arrange in a unified manner our enterprises' investment in renewal and technological transformation and their investment in capital construction. This is determined by the law governing the movement of the investment in fixed assets.

1. A common characteristic of the investment in fixed assets, whether in capital construction or in the technological transformation of old enterprises, is that it "takes a relatively long time to consume labor and means of production and during this period the investment does not yield any useful products." (Footnote 2) (Marx: "Das Kapital," People's Publishing House, 1975 edition, Vol 2, p 396) The extent to which a socialist state can undertake, under its existing production scale, the projects that will for a certain period of time require input and yield no output, must be determined through accurate calculation and planning in the process of striking an overall balance, in order to ensure that the total scale of investment matches our national strength and will not cause any destruction to the existing production.

2. The value of fixed assets is also circulating, but it differs from that of the floating funds. The fixed assets perform the same function repeatedly in the process of production, its value is transferred part by part to products and is compensated through the sales of the products and then

continues to exist until the life of fixed assets ends. Then currency is once more transferred into new fixed assets which compensate the old fixed assets in a renovated form. Under the conditions of expanded reproduction, this kind of compensation is often carried out together with additional new investment and thus begins a new and bigger scale of circulation and turnover. At present, the investment in the renewal and technological transformation has already accounted for one third of the total investment in fixed assets. As the investment in fixed assets increases, the proportion of investment in the renewal and technological transformation will increase year by year in the future. The characteristic of fixed assets in using this kind of unique circulation and unique cycle to realize reproduction determines that the investment in fixed assets must be put under the state's unified planned management. Only by so doing can our investment bring about better economic results.

3. The reasons why the state planning must strengthen its management over the renewal and technological transformation of our enterprises are:

a. Only by accepting the guidance of the state planning, can our enterprises avoid that kind of malpractice whereby, at the time of gradual expansion of the capitalist enterprises, "things are not carried out in accordance with the social planning, but are decided by the conditions, capital and material resources and so forth which vary in thousands of ways at the time when a single capitalist is engaged in the economic activities," and thus it brings about "the enormous waste of productive force." (Footnote 3) (Ibid., pp 193, 527)

b. Although the depreciation funds of our enterprises are deducted early from the portion of compensation funds in the distribution of the total social products, they should be maintained in reserve in the form of goods and materials which correspond to the amount of currency. However, because in the process of reproduction, the tranference of value of the fixed assets and the drawing of depreciated funds do not take place at the same time as the renewal of material objects, the temporary deposit of currency will inevitably occur so that the renewal of fixed assets will be extremely large in some specific year and will be extremely small in the next few years. As a result, "the total amount of production of the necessary means of production must be increased on the former occasions and must be decreased on the latter occasions." (Footnote 4) (Ibid., pp 193, 527)

4. The economic crisis in a capitalist society can give rise to readjustment in the structure of trades and enterprises and force the enterprises to carry out in advance their renewal of equipment in accordance with a larger social scale. In a socialist society, it is not only at a time when there are mistakes in the policy decisions in macroeconomics, that a dislocation will occur and demands a readjustment, such as the readjustment in "the period of the Great Leap Forward" and that after the 10 years of internal disorder. At that time, it was imperative for us to make macro decisions about which projects had to be suspended and which enterprises had to be closed, suspended, merged and shifted. Under normal

conditions, because science and technology makes progress by leaps and bounds, it is imperative for us to develop the most advanced technology, establish rising new industries, vigorously upgrade and update our products, carry out technological innovation and restructure our industries. In such cases, a new dislocation can also emerge and demand that we carry out a sober readjustment in order to solve the question of which products and technology should be developed and which backward products and technology should be eliminated and in order to once more readjust the product mix and the structure of our enterprises and technology. This kind of readjustment will inevitably cause our fixed assets to change and our investment to expand. In a socialist society, these policy decisions can only be made by the state, and cannot be made by the enterprises on their own.

5. The capital construction and technological transformation is merely a kind of management concept that we put forth in order to exercise our economic management over the investment in fixed assets. It is quite easy for us to differentiate the renewal of a single separate piece of equipment in a big enterprise from the capital construction of a new enterprise. However, at the time when a trade or an enterprise carries out its technological transformation on a large scale, will it be regarded as renewal and technological transformation or will it be regarded as capital construction? There is no clear-cut demarcation line between the two and moreover, this kind of technological transformation is often carried out together with the additional investment. In Western countries, no matter whether it is a renewal or a new project, it is called investment in fixed assets, while in the Soviet Union, it is referred to as investment in capital construction. All this shows the necessity of carrying out a unified planned management over the investment in fixed assets.

CSO: 4006/681

FINANCE AND BANKING

JILIN MEETING ON SECOND STAGE TAX REFORM ENDS

SK030340 Changchun Jilin Provincial Service in Mandarin 1030 GMT 2 Aug 84

[Excerpts] After a 9-day session, the provincial meeting on the second step in substituting tax payments for profit delivery closed in Changchun today. The meeting relayed the guidelines of the national meeting on the second step in substituting tax payments for profit delivery, made a plan for our province's second-stage tax reform work and called on state enterprises across the province to comprehensively carry out the work of the second step in substituting tax payments for profit delivery.

Attending the meeting were leading comrades in charge of financial and trade work from cities, prefectures, autonomous prefectures and counties and responsible comrades of concerned provincial-level organs.

Vice Governor Huo Mingguang delivered a speech at the meeting.

From the latter half of last year, state enterprises in our province generally carried out the first-step tax reform. Practice in the past year proved: To a certain extent, the reform solved the problem of the enterprises' eating from the big pot of the state and the problem of the staff and workers eating from the big pot of the enterprises. But this was merely a transitional work. There were still some shortcomings.

The State Council has decided that beginning in the fourth quarter of this year, the second step will be taken to replace profit delivery with tax payments so that all enterprises will gradually switch to the substitution of tax payments for profit delivery, instead of having the two methods in use at the same time.

The meeting pointed out: The second step in substituting tax payments for profit delivery will further define the relations of distribution between the state and enterprises, basically solve the problem of the enterprises' eating from the big pot of the state and create a condition for solving the problem of the staff and workers eating from the big pot of the enterprises.

The meeting stressed: The second-step tax reform is a great decision policy of the CPC Central Committee and the State Council as well as a basic measure for economic system reform. It was discussed by the Secretariat of the CPC Central

Committee, approved by the Political Department and adopted by the Standing Committee of the NPC. We must conscientiously implement it to the letter. In line with the demands of the state, all localities and departments should unswervingly implement the work well.

The meeting called on party committees and governments at all levels to take into consideration the whole situation and the basic benefits of the state and the people and to conscientiously carry out well the second-step tax reform.

All localities should designate responsible comrades to attend to this work. At present, we must firmly make good preparations for carrying out the second-step tax reform and conduct propaganda well so as to make cadres at all levels, especially leading cadres, of the enterprises to rejuvenate the aim and significance of the second-step tax reform, to define specific ways of carrying out the reform and to create conditions for ensuring a smooth progress of this reform. We should make good calculations to appraise and decide the quotas of regulatory business tax and the enterprises retaining rational profits. We must complete the preparatory work by the end of September so as to ensure the implementation of the second-step tax reform on schedule.

CSO: 4006/682

## FINANCE AND BANKING

### CONFERENCE ON SECOND STEP OF TAX PAYMENT HELD

SK010338 Jinan Shandong Provincial Service in Mandarin 2300 GMT 31 Jul 84

[Excerpts] The provincial conference on the second step of the tax-payment system, which concluded on 31 July, stressed: The second step of substituting profit delivery with tax payment is an important economic policy decision of the CPC Central Committee. All prefectures and cities should carry out this reform successfully with the spirit of party rectification, strive to hold study meetings, set forth the tasks and prepare for tax collection at an early date and see that necessary ideological, organizational and professional work is completed so that the scheduled initiation of the second step on 1 October can be guaranteed.

Attending the conference were commissioners and mayors in charge of economic work, chairmen of economic commissions and directors of financial and tax bureaus of various prefectures and cities. Also attending and speaking were Li Zhen, deputy secretary of the provincial CPC Committee and provincial vice governor; Jiang Chunyun, deputy secretary of the provincial CPC Committee; and Ma Shizhong and Lu Hong, provincial vice governors.

The conference noted: The crucial task of the second step of substituting profit delivery with tax payment is to straighten out the relationship between the state and enterprises in financial distribution and to invigorate enterprises and the economy. It is the key point of urban economic reform as a whole. A success in this step will create favorable conditions and blaze trails for other reforms of the urban economy.

The conference held: Multiformed reforms have been adopted over the past few years to straighten out the relationship between the state and enterprises in financial distribution. Changing profit delivery into tax payment provided the best results through repeated reforms. The achievements in the first step of the tax payment system fully showed that the system can handle fairly well the relationship fo interest among the state, enterprises and staff and workers, boost the enthusiasm of all quarters, and inspire enterprises to improve operation and management. It helps to realize the simultaneous increase in production, profit and the tax or profit to be delivered to the state and the simultaneous growth in the earnings of the state, enterprises and individuals. It has many advantages.

The conference pointed out: The second step of the tax payment system should be implemented resolutely. It not only greatly improves the tax system and the tax rate but also energizes enterprises while applying pressure and helps them conserve great strength. It shows great improvement compared with the first step and, therefore, should be carried out with great attention and success.

CSO: 4006/682

FINANCE AND BANKING

BRIEFS

HEILONGJIANG URBAN-RURAL SAVINGS--Heilongjiang Province's urban savings deposits totaled 3,374,860,000 yuan by the end of June, which represented an increase of 461,960,000 yuan, or 77 percent of the annual growth target, compared with the figure calculated at the end of 1983. The savings deposits of peasants totaled 751,950,000 yuan, an increase of 19,270,000 yuan over the figure calculated at the end of May and an increase of 27.6 percent over the same period of 1983. [Text] [Harbin HEILONGJIANG RIBAO in Chinese 16 Jul 84 p 1 SK]

JILIN SAVINGS DEPOSITS--Jilin Province prefulfilled its annual urban savings deposits plan by 5 months and 10 days, overfulfilling the annual plan by 9.16 million yuan. The total savings deposits reached 2,031,320,000 yuan. [Text] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 28 Jul 84 SK]

CSO: 4006/682

MINERAL RESOURCES

BRIEFS

HAINAN MINERAL PRODUCTS--Hainan Region has now discovered some 10 kinds of mineral products, including iron, lead, copper, aluminum, silver, and titanium. The region abounds in fine quality washingtonite. The deposits of the (Hengkua) coal mine amount to some 89 million tons. [Summary] [HK030919 Haikou Hainan Island Service in Mandarin 0330 GMT 30 Jul 84]

CSO: 4006/682

INDUSTRY

BRIEFS

LIAONING IRON, STEEL COMPANY--The Anshan Iron and Steel Company in Liaoning was built in 1916. From 1916 to 1930, it built three blast furnaces and one ore dressing plant with an annual designed capacity of 288,000 tons of pig iron. The state has invested more than 5 billion yuan for the company to restore and expand production over the past 3 decades or more. By 1983, the company had built 5 large iron mines, 10 blast furnaces, 3 steel foundries, 20 open-hearth furnaces, and 13 steel rolling mills with an annual capacity of 23 million tons of iron ore, 7 million tons of steel, and 4.4 million tons of rolled steel. [Summary] [Shenyang LIAONING RIBAO in Chinese 9 Jul 84 p 1 SK]

LIAONING SEMIANNUAL INDUSTRIAL FIGURES--In the first half of this year, Liaoning's industrial economic returns grew at a faster rate than its production. The province fulfilled 51.4 percent of its annual industrial output value target, a 10.3-percent increase over the corresponding period of 1983. Compared with the same period of 1983, the output value of light industry grew by 11.9 percent and that of heavy industry by 9.3 percent. The province fulfilled 52.3 percent of its annual revenue plan, registering a 21.7-percent increase over the same period of 1983. Local state-run industrial enterprises delivered to the state 21.9 percent more profits than in the same period last year. [Excerpts] [Shenyang LIAONING RIBAO in Chinese 12 Jul 84 p 1 SK]

CSO: 4006/682

DOMESTIC TRADE

GUANGMING RIBAO ON NATURE, ROLE OF TRADE CENTERS

HK271041 Beijing GUANGMING RIBAO in Chinese 8 Jul 84 p 3

[Article by Zhang Caiqing [1728 6846 1987] and Li Shaohua [2621 1421 5478]:  
"A Tentative Discussion on the Nature and Role of Trade Centers"]

[Text] Abstract: Trade centers are open, wholesale transaction sites set up in key cities, where goods are traded in large volume. The key members of trade centers are state-owned and collective industrial and commercial enterprises, their business activities are confined to the limits prescribed by state laws and decrees, and their purpose is to smooth out commodity circulation channels and to promote the benign cycle of socialist enlarged reproduction. The establishment of trade centers serves as a breakthrough in the reform of the wholesale system of manufactured goods as a whole. It helps establish an open, wholesale commercial system with fewer intermediate links and promote the rational division of labor between industrial and commercial enterprises and the integration of the two. However, trade centers and wholesale enterprises have their own functions and roles to play. Trade centers cannot completely replace wholesale enterprises or take the place of commodity-supply fairs. Nor is it suitable for state-owned commercial specialized companies to monopolize trade centers. [End abstract].

At present, trade centers for manufactured goods in China are rising and developing. They are manifested mainly in three forms: they are first, an operational comprehensive wholesale association; second, an economic body that both engages in business activities and offers service to society; and third, a service enterprise that offers wholesale market facilities. We hold that trade centers are open, wholesale transaction sites where goods are traded in large volume--sites set up in key cities where manufactured goods are produced and traded.

I

The socialist trade center and the commodity of old are similar in both form and function. They are both transaction sites where goods are traded in lots where market mechanism functions, but there is an essential distinction between the two. Commodity exchange under capitalism is established on the basis of the private ownership system and controlled by the law of surplus value and that of free competition and is thus highly speculative. The trade center

under socialism is established on the basis of the public ownership system and composed mainly of state-owned and collective industrial and commercial enterprises and its business activities are confined to the limits prescribed by state laws and decrees and its purpose is to smooth out commodity circulation channels and to promote the benign cycle of socialist enlarged reproduction. The trade centers for manufactured goods at the present stage in China have the following roles to play:

1. As open transaction sites where goods are traded in lots, trade centers can offer better chances for their members to engage in competition in product quality and prices and can give full play to the role of market mechanism in stimulating production and smoothing out commodity circulation.
2. Wholesale trade has been transformed from being operated in a decentralized way to a centralized one and from a method of unified distribution level after level down to that of free purchase and marketing. In this way, economical and rational commodity circulation links can take shape gradually and time and charges for commodity circulation can be saved.
3. Trade centers provide sites for all sides concerned such as different factories, wholesale firms, and industrial and commercial enterprises to conduct direct competition among themselves under uniform conditions and in this way, the latter can have a greater opportunity to choose the best form of marketing their products.
4. Trade centers can help gather and facilitate the transmission of market information and provide all concerned with comprehensive services.

The establishment of trade centers for manufactured goods is conducive to smashing the existing wholesale system of manufactured goods and to setting up an open wholesale commercial system with fewer intermediate links. Trade centers allow all localities, trades and industrial and commercial enterprises to trade in manufactured goods and in this way, the situation in which wholesale trade in monopolized by state-owned commerce can be halted and trades, whether in the wholesale and retail sectors or from various factories, can buy and sell manufactured goods in lots. Consequently, the purchase and marketing relationship in the order of first, second, third, and zero grades can be smashed. At trade centers, both buyers and sellers can freely conclude transactions through consultations and in this way, the old single-line method of distributing commodities level by level down can be altered; at the centers, the method of fixing prices is relatively flexible, in other words, prices are fixed through consultations or according to lots and the method of fixing prices in accordance with a fixed deduction rate can thus be abolished; also, at the centers, business transactions can be carried out fairly satisfactorily and quickly and services such as communications, information, transport, and storage can be obtained, and the malpractices of state-owned wholesale commercial departments engaging exclusively in supplying commodities to the neglect of offering after-sales services can thus be checked. The breakthroughs made in the abovementioned areas are the important component parts of the reform of the wholesale system of manufactured goods. They are of great significance in breaking down the barriers between different regions and between different departments,

readjusting the irrational state-owned wholesale establishments, separating the functions of the government from those of the enterprise, and operating state-owned wholesale enterprises in a more lively manner. It can, therefore, be said that trade centers for manufactured goods serve as the breakthrough point of the reform of the wholesale system of manufactured goods as a whole.

## II

According to a Marxist analysis, social division of labor occurred three times in human history. The third social division of labor which took place in the history of civilization "created a class which engages only in commodity exchange and not in production--merchants." ("Selected Works of Marx and Engels," Vol 4, p 162) The increasingly frequent commodity exchange, the constant expansion of regions where commodity exchange was conducted, and the sharp contradiction between production and marketing led to the separation of commercial labor from manual labor. This represented historical necessity and social progress. At present, in countries throughout the world, the function of commodity circulation is undertaken basically by commerce and most activities of buying and selling commodities in large amounts are carried out by specialized wholesale commerical units. However, with the deepened socialization and specialization of production and the ever-complicated combination of social labor, there is a corresponding change in the forms of the combination of production and marketing. On the one hand, there is a division of labor between industry and commerce and on the other, production and marketing form an integral whole. These two trends go hand in hand.

In China, to suit the present level of productive forces, there has also emerged a trend of unity of production and marketing while there is a division of labor between industry and commerce. In some trades, companies which have been set up on the basis of specialization and coordination, carry out production, supply, and marketing in a coordinated sequence. However, with the changed market situation in which commodities have now become abundant after being scarce, the contradiction between industry and commerce under the present wholesale system of manufactured goods is becoming more acute and some new problems have cropped up in the division of labor between industry and commerce. The companies and factories in textile and light industries, which market their products in large quantities through their own channels, have set up marketing establishments of their own, organized the ranks of their own full-time salesmen, and increased the number of their salesmen one after another, but product marketing is far from being unimpeded and efficiency remains low. With the establishment of trade centers, the role of marketing mechanism has been brought into better play from the aspect of circulation. This helps promote the rational division of labor between industry and commerce and the integration of the two. Because not a single restriction is imposed by trade centers on those who take part in business activities in terms of trade, department, region, and ownership system, all participants can act on a completely equal footing as commodity producers and operators. On the one hand, industrial enterprises can carry out various forms of the purchase and marketing of goods through commercial departments and on the other, they can promote the sale of their goods directly in trade centers and this will save them from sending a large number of salesmen to make occasional bilateral

exchanges of commodities all over the country. As a wholesale enterprise that carries out its operations independently, state-owned wholesale commerce engages in economic activities. At trade centers, business transactions are open to all and can be concluded flexibly at any time and by various ways and means. Producers can engage directly in market competition. This helps reduce the number of superfluous intermediate links and helps rationalize the setup of industrial companies and enterprise marketing establishments. Both industrial and commercial enterprises can form a long-term stable purchase and marketing relationship in the spirit of voluntary participation and mutual benefit and also can freely choose their trading partners at trade centers whenever necessary. In this way, both sides then have places to buy what they need and to sell what they produce. At the same time, they can become long-term trading partners by abiding by contracts and also can call a halt to their trading for the time being, with each having got what it wants. As for industry, factories advanced in production that produce first-rate, attractive, and reasonably priced goods will enjoy a good and stable market. At trade centers, if nobody cares to ask about the goods produced by factories less advanced in production, there is no need for them to blame heaven or others. So far as commerce is concerned, those that are skilled in business and can operate their businesses with facility at trade centers will flourish and those clumsy, lazy, and conservative wholesalers will lose business and even go bankrupt due to losses. In brief, at trade centers, all factories, shops, industrial and commercial enterprises can operate throughout the length and breadth of the business world and those which are superior will win and those which are inferior will be defeated. There is no need for anybody to "lodge a complaint against others" with the higher authorities--this is because the objective economic laws will impel them to gradually find out the relatively rational means and ways of dividing labor between industry and commerce and integrating industry and commerce.

### III

Setting up trade centers for manufactured goods is a new, major measure taken in reforming the wholesale system and it is, therefore, unavoidable that some people have certain doubts and misgivings on this question.

With the establishment of trade centers, are wholesale enterprises still needed? We maintain that trade centers and wholesale enterprises are closely related, with each complementing the other but also having their own functions and roles. The aim of establishing trade centers is to provide various "buyers" and "sellers" with sites to carry out multilateral wholesale trade and also provide them with services ranging from agency, information, and storage to transportation. They will surely attract some state-owned wholesale enterprises to do business there. So far as a specific trade center is concerned, all wholesale enterprises, irrespective of whether they are local or come from other parts of the country, are allowed to buy and sell goods at the trade center. As for a specific wholesale enterprise, it can set up a number of "windows" in local trade centers or the trade centers in other parts of the country and do business there. State-owned wholesale enterprises are both the buyers and sellers of commodities and are commercial enterprises that carry out their operations independently. Being important members of trade centers,

state-owned wholesale enterprises form the kernel of trade centers. With the abolition of the current wholesale business, which is run at three levels and also with the difference in the sizes of cities and lots, large and medium-sized and small wholesale enterprises will, therefore, take shape naturally. Therefore, trade centers cannot completely replace wholesale enterprises.

Can trade centers take the place of commodity-supply fairs? In our opinion, trade centers are permanent transaction sites where goods are traded in large amounts, while the current commodity-supply fairs held by the commercial departments at various levels, where goods are also traded in large volumes, carry out their activities at regular intervals (generally twice a year). The function of a commodity-supply fair is to specifically dovetail or ascertain the plans for purchasing and marketing commodities according to different trades throughout the country or between provinces. Commodity-supply fairs are, after all, an important way of implementing the policy concerning the distribution and supply of commodities, carrying out the state plan for promoting transactions, and organizing commodity circulation in a centralized and rational way. However, in the last few years, there has been an ample supply of manufactured goods, a good number of additional commercial channels, and a drastic increase in the number of people participating in the national commodity-supply fairs. This coupled with the excessively rough division of specialized trades, the over rigid control of prices, and the excessively numerous business transactionc concluded outside state markets has made it urgently necessary to establish permanent, open transaction sites. Making things convenient for buyers and sellers to do business freely at any time, trade centers can play the role that commodity-supply fairs cannot play and can replace some functions of commodity-supply fairs in such areas as helping supply each other's needs for commodities and redistributing a variety of commodities. However, at present, trade centers are far from perfect and the buyers market for manufactured goods has not yet taken shape. It is hard for trade centers to completely replace commodity-supply fairs. It is very likely in the future that the two will gradually form an integral whole on the basis of trade centers.

Should state-owned commercial specialized companies set up and operate trade centers? We are of the opinion that the competent commercial departments and the specialized companies and wholesale enterprises run by the state should vigorously support the construction of trade centers in manpower and material resources but none of them should singly set up and operate trade centers. This is due to the following three reasons: First, they lack funds; trade centers must have such facilities related to their business as sites, hotels, restaurants, and warehouses and fairly advanced service facilities such as posts and telecommunications, transportation, and accounting; moreover, setting up a trade center with complete equipment will cost tens of millions of yuan and none of the competent commercial departments and specialized companies can afford to undertake the construction of such a trade center. Second, they are apt to lead to sole proprietorship; if state-owned commercial specialized companies alone are allowed to set up and operate trade centers, they will, more often then not, restrict other units from doing proper business and proceed to follow again the beaten track taken by state-owned wholesale enterprises, a track characterized by sole proprietorship. Third, trade centers are the

centers of urban commodity exchange and public service facilities and therefore they should be undertaken by all sides concerned under the leadership of the local city government.

At present, the state-owned commercial specialized companies in some cities have increased the numbers of specific wholesale departments, expanded the scope of operations, and adopted some flexible ways of fixing prices and buying and selling goods, thus playing a very good role in doing a good job in wholesale commerce. However, this mainly indicates an improvement in the operation and management of wholesale enterprises and does not necessarily mean they have successfully set up and operated trade centers.

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OMESTIC TRADE

UANGMING RIBAO VIEWS COMMERCE, WORKS OF CHEN YUN

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Article by Cai Xiaofeng: "It is Imperative To Make Commerce Viable--Notes on  
reading the Second Volume of the 'Selected Works of Chen Yun' (1949-1956)"--  
[capitalized passages published in bold face]

[Text] The second volume of the "Selected Works of Chen Yun" (1949-1956) has recently been published. This is a matter of great significance in the political life of the people of our country. Commercial work is one of the important problems raised in this volume. Reforming the system of circulation and making commercial work viable are important links in the current economic reform. Learning the relevant expositions on commercial work as expounded in the Selected Works of Chen Yun" is very beneficial to our summary of historical experiences and to the promotion of the reform.

Our existing commercial system has been formed under previous conditions when the commodity economy was not developed and the supply of commodities was tense and in the process of carrying out socialist transformation on capitalist commerce and individual commerce. At that time the commercial departments were the principal operational departments in executing the policy of reforming capitalist industry and commerce. In order to restrain, utilize, and transform capitalist industry and commerce, the commercial departments adopted various measures such as orders placed by the state with private enterprises for processing materials or supplying manufactured goods, state monopoly for purchase and marketing for the majority of industrial products, and unified purchase and marketing for major agricultural products. These measures had achieved very great results. Without these measures, there would never have been the phenomenon of realizing the joint state-private ownership amid an atmosphere of drums and gongs. However, after completing the socialist transformation of capitalist industry and commerce, these measures were rendered unnecessary. Just as Comrade Chen Yun said, "Since the situation has changed, our commercial policy could also be changed in accordance with the new situation." ("Selected Works of Chen Yun," p 332. The following quotes, if from the same book will be marked with the page number only.) In light of this radical change, Comrade Chen Yun proposed a series of reformatory measures ideas.

ANGE THE RELATIONSHIP OF PURCHASE AND SALES BETWEEN INDUSTRIAL ENTERPRISES AND COMMERCIAL ENTERPRISES. Production and circulation are two important links

in social reproduction. Production determines circulation, and only when production is developed can circulation expand correspondingly; at the same time, circulation plays an important role in influencing production, and if circulation is blocked, production will be unable to develop smoothly. Our transformation on capitalist industry and commerce proceeded precisely from the control of circulation. However, "This is a special way of managing production under a certain historical condition, and this can only be a transitional and temporary method." (p 321) The development of the socialist commodity production could no longer adopt this method of restraint, but had to employ new methods. This entailed the change of the relationship of purchase and sales between industrial enterprises and commercial enterprises, and the increase of channels for circulation, so as to make commerce, and thus the entire economy, brisk and viable. Comrade Chen Yun proposed that the commercial departments should change the practice or orders placed by the state with private enterprises for processing materials or supplying manufactured goods and unified purchase and marketing to the mode of factories being responsible for purchasing raw materials and for marketing their commodities and commercial departments selecting and purchasing the commodities offered by the factories. With regard to the raw materials needed in industrial production, the required amount should be supplied in a unified way according to plans by the planning commission; as for the quality of the materials, apart from those varieties whose supply falls short of demand, which should be distributed according to plan, other varieties should be freely selected and purchased by the units utilizing the materials, and the practice of selling goods arbitrarily with a certain proportion of good and bad things mixed should be prohibited. Between industry and commerce, through the methods of selected purchase, agent sales, or selfmarketing, competition would be promoted among the productive enterprises, which would be conducive to improving production, lowering production costs, and enhancing quality of products.

CHANGE THE METHOD OF DISTRIBUTION OF GOODS BETWEEN THE UPPER LEVEL AND THE LOWER LEVEL OF THE COMMERCIAL SYSTEM TO FREE PURCHASE. Distribution of goods was a measure which had to be adopted in the wholesale work of the commercial units under the practice of orders placed by the state with private enterprises for processing materials or supplying manufactured goods and unified purchase and marketing. Under the system of distribution of goods, a small number of wholesale companies placed orders with factories, and, after they got hold of the goods, distributed them to the grassroots shops level by level according to the administrative system. Because there existed many links between the grassroots shops and the producers, the information about the needs of the consumers could not be conveyed to the producers in good time, so that the phenomenon of commodities being not suited to market needs and of gradual reduction in the varieties of commodities occurred. Comrade Chen Yun said: "The business exchanges between state-run enterprises, between the upper level and the lower level within the supply and marketing cooperatives, and between different regions should be a relationship of selected purchase from the bottom to the top, and should not be the relationship of distribution of goods from the top to the bottom." [pp 322-323] The concrete measures were: With the exception of those commodities whose supply falls short of demand, which should be distributed according to plan, all other commodities should be selected and purchased by state-run shops, supply and marketing cooperatives, cooperative

shops, cooperative groups, and private businessmen in various places, and this should be in the form of free purchase from the bottom to the top. In order to ensure the smooth progress of selected purchase, Comrade Chen Yun said: "Within the country's boundaries, no place is allowed to adopt the method of blockade toward another. It is not permitted to prevent commodities produced in other places from entering the local market. It is not permitted to prevent local commercial organs from purchasing commodities from other places. Commodities produced in a certain place in the country should be allowed to enter other places for sale." (p 324) This kind of free purchase under the guidance of the state plan would constitute a network of circulation with more channels, less links, and constituent lines extending in all directions, which would open up a broad prospect for commodity production and commodity exchange.

CORRECTLY UNDERSTAND THE STATUS AND ROLE OF SMALL BUSINESSMEN AND VENDORS. Up to 1956, the number of small businesses and vendors in our country was about 3 million, comprising 4 million persons engaged in the business. Of these, 15 percent joined the state-private ownership units, 25 percent were organized into cooperative shops, and the remaining 60 percent adopted the form of agents for purchase or sales for state-run units or for supply and marketing cooperatives, or, in addition to acting as agents, marketed the portion of commodities which the state-run units and the supply and marketing cooperatives did not deal with. Comrade Chen Yun said: "It is necessary to regard the handling of small businessmen and vendors as an important part of handling the overall commerical work." (p 310) "These small businessmen and vendors, who are scattered in residential areas, constitute a form of marketing and service in our commerce which will be needed in a long time to come." (p 310) The commodities which the small businessmen and vendors marketed were mostly small commodities indispensable to the daily life of the masses, there was no limit as to the time of doing business, and all the members of a family could stand behind the counter. In short, convenience and flexibility were the features of their operations. If they were concentrated and formed into state-private owned shops and cooperative shops, or if they were given wages by the state while they were allowed to conduct scattered business, their initiative would be lost because of the "iron bowl" which was placed in their hand. Therefore, all-round state-private ownership was not viable for them. Comrade Chen Yun proposed: Only a portion of the small businessmen and vendors should be absorbed into the state-run companies or into the state-private owned shops, and another portion should run their own business privately for a long time. And the state-private run shops should not adopt the method of paying fixed wages, but should adopt the form of agents for purchase and sales, with service charges paid by the state-run shops or the supply and marketing cooperatives in the nature of piece rate wages. Comrade Chen Yun pointed out that the role of these small businessmen and vendors in the economic life of our country was in line with the objective economic conditions of our country.

UTILIZE THE LEVER OF PRICE. The basis of price is the value of a commodity, but the concrete level of price is conditioned by many factors. Comrade Chen Yun said: "The factors that affect commodity prices are very complicated, including the quantity of production, the condition of requirement, the conditions in terms of transportation, the factors in terms of psychology and the

current situation, and so on." (p 119) Hence, when working out prices, we should proceed from the objective reality, study various factors, and make the price reflect the inherent value of commodities. It is correct for us to implement the policy of stabilizing prices. However, stabilizing prices should not be construed as "unifying prices" or "freezing prices." In the past, we attained successful experiences in the use of the lever of prices in the north-eastern liberated zones. Originally it was stipulated that 12 jin of grain was equal to 1 jin of cotton, and consequently all the peasants gave up growing cotton; it was stipulated afterward that 13 jin of grain was equal to 1 jin of cotton, and that those growing cotton would be exempted from paying public grain, and the peasants became active in growing cotton. This demonstrated that the peasants became active in growing cotton. This demonstrated that the policy of price was very important and that it was necessary to study and grasp this matter. In line with the idea of selection and purchase and factories marketing their own products, Comrade Chen Yun put forward his idea of regulating the policy of price. First, strict control should be exercised over the price of important commodities which had a direct bearing on the national economy and the people's livelihood and over the price of those commodities for which the demand exceeded the supply; second, as for other commodities, price control should be relaxed, and a range should be set so that prices could fluctuate within a certain limit; and third, good prices for good quality, and good selling prices for good commodities. These expositions of Comrade Chen Yun on price reform are still very instructive and inspiring to us today.

Later, because of various historical reasons, these important ideas of Comrade Chen Yun on enlivening commerce could not be wholly materialized. Through the test of time, it can be seen that these ideas are correct. These ideas, together with the losses sustained as a result of the failure to uphold these ideas over the past years, are all precious experience and lessons in our socialist commercial work.

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